Applying Behavioural Insights to Encourage Earlier Engagement from Borrowers in Mortgage Arrears

A report from the Behavioural Insights Team

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Executive Summary

The past 15 years has been a turbulent one for the Northern Ireland housing market which has resulted in many households facing negative equity, arrears and repossessions. The Behavioural Insights Team (BIT) has been asked to explore ways of encouraging borrowers facing mortgage arrears to take action earlier, either by seeking advice, engaging with their mortgage lender or attending their court hearing. This work has involved reviewing the processes currently followed by the NI Courts and Tribunal Service, mortgage lenders and the advice sector with a view to improving aspects of those services which impact borrowers’ behaviour.

This report sets out our proposals about what could be done to improve the situation. The suggestions range in focus from quite detailed comments about letters to borrowers, to higher level policy suggestions for the Department for Social Development (DSD) and other Government departments.

Our main suggestions include:

- Review the tone, content and format of all letter correspondence. All correspondence should be kept short, include clear action points at the beginning, and be written in clear, plain English.

- Correspondence from lenders should avoid sounding aggressive or pessimistic, instead encouraging borrowers to make contact to find a solution.

- All correspondence should include brief, plain-English cover letters.

- We recommend including a customer ‘road map’ in NI Courts and Tribunal Service’s documents to make it easier for borrowers to follow and engage with the legal process.

- Tackle the sense of doom and inevitability by using social norm messages to highlight the prevalence of borrowers finding a solution if they seek advice.

- Help people come up with specific plans and ‘implementation intentions’ to overcome likely difficulties.

- Use text-message prompts to encourage people to open important letters, and to remind people to turn up to court hearings.
The first point of contact between borrowers and banks is critical in setting the ongoing relationship. Too many customers, when proactively phoning their lenders before entering arrears, are not offered a pre-emptive solution. Banks should introduce processes to help customers during pre- or early-arrears.

Consider introducing new financial incentives for prioritising mortgage arrears over other expenses.

Consider changing the policy landscape to offer a ‘middle route’ in which borrowers can stay in their home but relinquish ownership.

Raise awareness of debt and mortgage arrears to help overcome perceived stigma. One novel way of doing this, suggested by borrowers themselves, is to commission a television programme.

Map the customer journey to identify key ‘moments of change’ and ‘decision points’ at which borrowers are most likely to be receptive to outreach (e.g. at Job Centres after someone has lost their source of income).

BIT would like to thank DSD for all the work they have put into this project. As a partner they have been exemplary in terms of sharing their extensive knowledge about Northern Ireland’s housing market, helping organise our fieldwork visits as well as providing copious amounts of background information. All this help has made working on the project much easier, and also, much more enjoyable.

The rest of the report is structured as follows:

- Background: background information about Northern Ireland’s housing market and BIT
- Literature review: a short review of the behavioural literature relating to debt focusing on the behaviour of getting into debt and the behaviour of being in debt
- Suggestions: this section described our EAST framework and sets out our suggestions about how to encourage people to seek advice earlier
- Conclusion
Background

Northern Ireland has historically been one of the cheapest parts of the UK to buy a house, yet the years leading up to 2007 saw an incredible boom in prices with the region becoming the third most expensive, surpassed only by London and South East England\(^1\). However, this sudden increase in house prices was not supported by an increase in wages. At their peak, prices averaged at 9 times the median salary, with households spending an average of 64% of their income on mortgage repayments, despite 42% of these mortgages being interest-only\(^2\). Many homeowners took advantage of the high prices to withdraw equity from their property with Northern Ireland having the UK’s highest rate of equity extraction (74% of remortgaging activity was used to withdraw equity) in the years leading up to 2007\(^3\).

Perhaps inevitably, this remarkable boom was followed by an equally remarkable bust, with prices now sitting around 50% of their peak 2007 value\(^4\), and once again being the cheapest region in the UK\(^1\). Furthermore, Northern Ireland has, as of this year, the UK’s highest rates of unemployment, and has suffered the second highest regional drop in employment since the pre-crisis peak\(^5\). Combine this with a population which has appeared to be more credit-hungry than other regions,\(^3\) and the result is a significant number of homeowners who have negative equity, mortgage payment arrears and are facing a real and growing risk of repossession. Sixty percent of borrowers in Northern Ireland who have taken out a mortgage since 2005 are now considered ‘mortgage prisoners’, unable to access the market for refinancing options due to their precarious or indebted financial situation\(^6\).

This is set to get worse as interest rates rise. Quantifying the exact number of households at risk is difficult, in part because good data specific to Northern Ireland is not publically available, but also because each household’s circumstances are unique and difficult to predict. HML estimates that 2,344 houses are directly at high risk of repossession as of 2014, representing 0.74% of

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\(^1\) Lloyds Banking Group, Historical House Price Data, downloadable at www.lloydsbankinggroup.com/media/economic-insight/house-price-tools/

\(^2\) LPS/NISRA, 2014; Halifax House Price Index


mortgages (3 times the second highest regions, Wales and Greater London, and around 4 times the UK average). Looking ahead from 2014 to 2018, the Resolution Foundation estimates that the number of households who are ‘highly geared’ (spending more than 33% of income on mortgage repayments), in ‘debt peril’ (spending more than 50% of income of mortgage repayments) or are ‘double triggers’ (being highly geared and mortgage prisoners), are all set to roughly double.

In response to this present and growing crisis the Repossessions Taskforce was set up to gain a clear understanding of negative equity, arrears and repossessions in Northern Ireland, and to develop evidence-based recommendations for mitigating the impact. Key among their early findings is that borrowers facing mortgage arrears typically leave it very late before engaging with their lenders or the advice sector for help. Such behaviour, whether through a reluctance to engage or an unawareness of the help that is available, limits the options available for resolution, putting borrowers’ homes at greater risk of repossession and often creating enormous distress. Research suggests that engagement with the advice sector and attending court does improve the outcome for over-indebted individuals, but in contrast, that borrowers consider engagement with their lenders as ineffective. These findings highlight the importance not only of encouraging communication between debtors and advice services, but also of gaining an understanding of the behaviour of all parties involved. To this end, the Behavioural Insights Team (BIT) has been asked to explore ways of encouraging earlier and more productive engagement by borrowers, and to review the processes currently followed by the NI Courts and Tribunal Service, mortgage lenders and the advice sector with a view to improving aspects of those services which impact borrowers’ behaviour.

8 Resolution Foundation, 2014. Hangover Cure: Dealing with the household debt overhang as interest rates rise.
Background to the Behavioural Insights Team

The Behavioural Insights Team (BIT) is a unique company. BIT started life inside the UK Prime Minister’s Office, No.10 Downing Street, as the world’s first government institution dedicated to the application of behavioural sciences. The Team is now a world-leading consulting firm whose mission is to help organisations in the UK and overseas to apply behavioural insights in support of social purpose goals.

BIT is comprised of ex-civil servants, psychologists, behavioural economists, marketers and policy specialists. We draw on insights from behavioural science and the ethnographic research we conduct ourselves and with our partners to gain a deeper understanding of how people behave in reality, rather than how policy makers and classical economists often assume they will behave. With this informed understanding of human behaviour, we are able to provide pragmatic and tailored guidance on the design of policy, public services and communications material, each designed to encourage or discourage certain behaviours. Wherever possible, we also turn these suggestions into real-world interventions, and empirically test the impact of those interventions, more often than not, with the use of Randomised Controlled Trials (RCTs). We have successfully applied behavioural insights – demonstrated by positively evaluated outcomes – to public and private sector operations in the UK and overseas across a wide range of policy areas, including housing and the financial services industry.

Literature Review

Introduction

When making financial decisions we rarely act as economically-rational decision makers, nor are we usually in possession of all the information, nor blessed with unlimited will-power. Instead, we are all prone to errors, biases and emotions, this means we rarely understand the full terms or long-term costs of mortgages, and we might also borrow more than we can afford. Markets themselves also show signs of these human traits, with housing bubbles at least partly fuelled by ‘irrational exuberance’ (“a heightened state of speculative fervour”)\(^\text{13}\).

Housing debt is therefore not a purely economic phenomena, but is inherently psychological. Debt may arise through psychological traits such as over-optimism,

discounting of the future, extravagant spending, and financial phobia. The effects of debt may also be psychological, often causing denial, resignation, fear and shame. The purpose of this literature review is therefore to provide an overview of these concepts in a way which is relevant to the housing crisis in Northern Ireland. To this end, this review is split into two sections – the psychology and behaviour of getting into debt (and how this might be avoided), and the psychology and behaviour of being in debt (and how this might be mitigated). In each section, consideration will be given not only to the borrowers themselves, but also to their interaction with lenders, legal professionals and advisors.

Getting into debt (and how this might be avoided)

Money, and debt, are far more than mere tools to buy goods and services. They are intrinsic to perceptions of social status and success, they are emotionally tied to notions of happiness, freedom, pride and security\(^{14}\), and they operate through complex economies and transactions which can be difficult for consumers to understand. It is therefore not surprising that our financial behaviour is affected by a host of emotional and cognitive traits, and that understanding these can help us understand some of the root causes of debt. It is worth noting from the outset, however, that not all causes of debt are behavioural or psychological. Whilst these behavioural and psychological factors are extremely important components of debt, we should not to forget the important role played by other factors. Many studies have found economic factors and circumstances such as illness or job loss to be equal or stronger correlates of debt\(^{15,16,17}\).

Buy now, pay later

Deciding to get into debt, by taking out a mortgage or choosing to re-mortgage, is an example of an inter-temporal choice. That is, it is a choice made in the present with the impact of that choice occurring at some point in the future. In such situations we have a great tendency to discount the future, being highly sensitive to immediate, up-front costs and rewards, but relatively disinterested in long-


term consequences\textsuperscript{18,19}. In the context of housing debt this means we focus on the appealing and immediate prospect of a new home or extra money from remortgaging, but often fail to give due consideration to long term affordability\textsuperscript{20}. Moreover, not only do we under-weight long-term costs when making financial decisions, but such costs are also inherently difficult to grasp, due to the complexity of fluctuating interest rates and the effect of compound interest (which is unintuitive and commonly underestimated)\textsuperscript{21}. In a time when credit is relatively cheap and easy to access (such as pre-2007), these psychological quirks make us vulnerable to taking on loans we cannot afford. The same explanation applies to our willingness to use pay-day loans or to over-spend on credit cards\textsuperscript{22}, which push the consequences of our purchases to the future thereby encouraging us to spend more.

\textbf{Cultural norms and social influence}

We are greatly influenced by the behaviour of people around us, and others’ behaviour, attitudes and beliefs have a large impact on our own actions\textsuperscript{23}. Our financial behaviour is no exception, and is heavily influenced by the norms and expectations of our culture. Whilst previous generations in the UK grew up in a culture of thrift, like in many Western societies, the last few decades have seen an increasing use of credit (and as a result, debt). "Over the past 30 years... the social norms and institutions that encouraged frugality and spending what you earn have been undermined. The institutions that encourage debt and living for the moment have been strengthened."\textsuperscript{24}

Lenders have increasingly encouraged customers to borrow, many services have become more dependent on having a credit rating, and rising house prices have encouraged people to take on more risk. A few decades ago less than 5% of house

\textsuperscript{20} A Ghent (2011) Subprime mortgages, mortgage choice and hyperbolic discounting
\textsuperscript{21} E Esienstein (2006) Psychological Processes in financial decision-making: A consumer perspective. Advances in consumer research, 33 pp403
\textsuperscript{23} M Deutsch & H Gerard (1955) A study of normative and informational social influences upon individual judgment. The Journal of Abnormal and Social Psychology, 55–3, pp629–636
buyers borrowed more than three times their income. This figure rose to nearly 60% in the years leading up to the financial crisis, with loan-to-income ratios of 7 times or more not being unusual in the more expensive parts of the UK\textsuperscript{25}, and at their peak house prices reaching more than 9 times the median salary in Northern Ireland\textsuperscript{26}. Such trends are not limited to housing, with overall household debt rising from around 85% to 160% of disposable personal income over the period 1987 to 2007\textsuperscript{27}. In short, taking on large amounts of debt is far more common, and therefore perceived as more acceptable, than it has been in previous decades, and these perceived norms play a large part in our decision-making process.

\textbf{Information, financial literacy and decision aids}

Financial literacy refers to a range of capabilities including planning ahead, an awareness of one’s financial situation, choosing financial products wisely, managing money and getting help and advice\textsuperscript{28}. Poor financial literacy therefore impacts mortgage choice as well as daily expenditure and budgeting, making it both more likely that people will get into debt, and more challenging to find a solution if problems arise. Studies have also shown that people of lower financial literacy tend to be more frequent users of consumer credit, and also hold higher shares of high-cost credit (such as payday loans and mail order catalogue debt)\textsuperscript{29}.

Financial literacy in Northern Ireland is quite poor: 17% do not understand the terms and conditions of their mortgage, increasing to 28% among low income households and 29% among 61 to 70 year-olds\textsuperscript{30}. Although other research suggests that this is not significantly worse than other regions of the UK\textsuperscript{20}, this level of financial illiteracy is more problematic in Northern Ireland because the population is in a more precarious financial position than most other regions of the UK. The median income is very low by national standards, and the rates of savings are the second-worst in the UK (with Wales being the worst)\textsuperscript{31}. The average household in Northern Ireland would be reliant upon state benefits within 19 days of losing their usual source of income (as of July 2014), well below the UK average of 29 days, and significantly worse than the Northern Ireland figure of 27 days just 18 months before.

\textsuperscript{25} www.telegraph.co.uk/finance/personalfinance/borrowing/mortgages/10927748/QandA-How-the-new-mortgage-lending-caps-could-affect-you.html
\textsuperscript{27} Office for National Statistics
\textsuperscript{28} A Atkinson et al, FSA (2006) Levels of financial capability in the UK: results of a baseline survey
\textsuperscript{29} R Disney & J Gathergood (2013)
\textsuperscript{30} Ipsos Mori / Consumer Council NI (2012) Household Bill Research
\textsuperscript{31} Legal & General (2014) Deadline to the Breadline Report 2014. London: Legal & General
previously. Perhaps most alarming, households estimate that they could get by for an average of 77 days, highlighting over-optimism bias and lack of awareness of their financial situation\textsuperscript{23}.

In response to these difficulties some improvements have been made in the way that information is presented to borrowers. For example the introduction of regulations forcing lenders to present a ‘representative APR’ aims to enable borrowers to view all important information concerning the cost of the credit as a whole, including any fixed fees and charges. There has been very little research on the effectiveness of this measure in improving consumers’ financial decisions, though there remains some scepticism of its usefulness\textsuperscript{32}.

Representative APR is an example of a decision aid. Complex decisions, such as choosing the right mortgage, suffer two broad types of decision difficulty:

1. *Task complexity* arises due to information uncertainty (interest rates are likely to change, there are many options to choose between, and the information may be difficult to understand).

2. *Trade-off difficulty* arises due to conflicting attributes making it difficult to judge one option against another (for example one mortgage might have a higher fee but lower interest, some have fixed interest whilst some are trackers, and others might have longer or shorter repayment terms).

Decision aids such as representative APR are designed to overcome these difficulties by simplifying the information into a single, easily understood figure, and to be consistent across products to allow like-for-like comparison. Without such tools, we rely on (often sub-optimal) rules-of-thumb to make a decision. For example we may simply eliminate all options that meet a certain, arbitrary criteria (such as all those with fees over £1000). Alternatively, we may select the most ‘different’ option because it stands out\textsuperscript{33}, the most neutral (middling) option\textsuperscript{34}, or pay undue attention to the characteristics which are most easily understood\textsuperscript{35}. For example, with credit cards, decisions are often made purely on the minimum


\textsuperscript{33} D Redelmeier & E Shafir (1995) Medical decision making in situations that offer multiple alternatives. Medical decision making, 274 pp302-305

\textsuperscript{34} S Nowlis, B Kahn & R Dhar (2002) Coping with ambivalence: the effect of removing a ‘fence sitting’ option on consumer attitude and preference judgement. Journal of consumer research, 29 pp319-334

\textsuperscript{35} A Lenton & M Francesconi (2010) How humans cognitively manage an abundance of mate options. Psychological Science, 21 pp528-533

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required payment\textsuperscript{36}, which is a very poor indicator of value. Research has also shown a direct link between the number of options available and the quality of choice, with larger choice sets tending to result in a ‘satisficing’ process (choosing something ‘good enough’) and smaller choice sets tending to result in a ‘maximising’ process (identifying the best option)\textsuperscript{37}.

Decision aids have been used in a number of different situations, such as with energy tariff comparison (through the Tariff Comparison Rate – TCR, albeit there is very little evidence yet of the efficacy of this tool), ‘traffic light’ nutrient labels on food, or star ratings used on many online services such as Tripadvisor.com and Amazon.com. One study demonstrated that introducing standardised and simple hygiene measures in the windows of restaurants not only had a significant impact on consumers’ choice, but also prompted a widespread improvement in restaurant hygiene\textsuperscript{38}. There is plenty of scope for these kinds of tools to be improved in financial services.

For example, one study\textsuperscript{39} tests a number of different ways of presenting financial information, finding significant effects on consumers’ tendency to take the loan. Specifically, they find that people tend to underestimate the cumulative effect of small amounts (the ‘peanuts effect’, as people think small amounts ‘are peanuts’ and so ignore them). The study demonstrates this effect when stating accumulated fees on debts, rather than monthly fees (which individually, are quite small so are often ignored). They also show the importance of comparative information, with the high APRs of pay-day loans being the strongest deterrents when compared against the typical APR of other financial products.

\textbf{Emotional and Personality Factors}

There have been numerous studies identifying certain demographics, personality types or emotions as being linked to high occurrence of debt. For example,

younger adults, particularly students and particularly males\textsuperscript{40,41}, often get into debt troubles when first gaining responsibility for their own finances whilst simultaneously gaining access to financial products such as credit cards at student loans. A lack of financial mentoring from parents has also been shown to have a significant impact\textsuperscript{42,43}, and various attitudes, such as impulsiveness\textsuperscript{44,45}, positive risk preference\textsuperscript{46}, over optimism\textsuperscript{47} and materialism\textsuperscript{48} have all been linked to debt risk\textsuperscript{49}. Some people have unhealthy emotional attitudes towards money, whether that's an addiction to unrealistic social emulation\textsuperscript{50} (compulsively living outside of one's means), an obsession with material gain, or fear: 20% of the UK are 'financial phobic', with 45% of those claiming to feel anxious, 15% immobilised and 12% physically sick when thinking about their finances\textsuperscript{51}. Once in debt, such fear is integral to many people's tendency to resist facing up to the situation, as discussed in more detail below.

\textsuperscript{40} Hayhoe, C.R., Leach, L. & Turner, P.R. (1999). Discriminating the number of credit cards held by college students using credit and money attitudes. Journal of Economic Psychology, 20, 643–656
\textsuperscript{44} Joireman, J., Kees, J. & Sprott, D. (2010). Concern with immediate consequences magnifies the impact of compulsive buying tendencies on college students’ credit card debt. Journal of Consumer Affairs, 44, 155–178
\textsuperscript{51} Survey reported by BBC, available at http://news.bbc.co.uk/1/hi/business/2696277.stm original research by Cambridge University. Original publication not available.
Being in debt (and how this might be mitigated)

Being in debt can have severe psychological consequences, with one in two indebted adults having a mental health problem\textsuperscript{52} (albeit the precise causality of this is debatable). A typical psychological response to worsening debt, from mild to severe, might include denial, a sense of loss of control, anxiety\textsuperscript{53}, anger, guilt & shame, depression, mental & physical illness\textsuperscript{54,55}. Mental illness, whilst profound, is outside the scope of this review. What is important, however, is an understanding of those psychological consequences of debt which feedback into the debt cycle. That is, the behaviour of debtors which cause them to get drawn further into debt or stop them from finding a solution. In particular these are denial, procrastination, self-serving bias, a lack of agency, poor prioritisation and a lack of spending barriers.

Denial

Despite there being very little academic literature on the denial of personal debt, it is commonly accepted as a serious issue and is a prominent feature of almost all advice services and communications material\textsuperscript{56,57}. It was also self-acknowledged by the handful of debtors we have spoken to in Northern Ireland. At its core, denial is a self-defence mechanism in which a person faced with an uncomfortable and distressing reality rejects it, acting as though the problem does not exist\textsuperscript{58}. Denial can take a number of different forms, many of which are relevant to mortgage arrears. At the most extreme end of the spectrum, we may be in outright denial of our debt, albeit this requires severe self-delusion and is likely to be less common\textsuperscript{59}. Instead we are more likely to be in denial of the impact – called \textit{minimisation}\textsuperscript{60} – whereby we admit the fact, but deny its seriousness, or denial of responsibility. This is related to \textit{self-serving bias} – blaming others, or

\textsuperscript{52} Gareth Neill, Grant Thornton – Debt Solutions. The psychology of debt.
\textsuperscript{56} http://www.debt.org/advice/emotional-effects/
\textsuperscript{57} StepChange (2014) The debt trap.
\textsuperscript{58} Freud, Sigmund (1925). Die Verneinung.
unavoidable circumstance, for our situation and optimism bias – believing ourselves to much less at-risk than the general population. Just as we may assume that illness and accidents are unlikely to happen to us, we may believe ourselves to be immune from the risk of debt, discouraging us from taking a more cautious and frugal approach to our finances, and leading us to underestimate the gravity of problems once they arise. For example, one study demonstrates our tendency to under-estimate the time taken to repay debts, and over-estimate future earnings and saving ability.

Procrastination
Denial is the psychological avoidance of an undesirable reality. Procrastination, relatedly, is the (temporary) behavioural avoidance of an undesirable activity. These two issues are of key importance and some of the behaviours at the heart of this project can in part be attributed to them – indebted customers often leave it late to seek help, letters from the bank or the NI Courts and Tribunal Service are not opened, court hearings are not attended, and there is a reluctance to engage with banks to talk about the problem.

This unwillingness to proactively deal with the problem is closely related to ‘future discounting’ discussed previously. Because we are more sensitive to costs & rewards in the present than in the future (psychological costs and rewards, as well as financial), we are motivated to postpone stressful thoughts and actions, for now, and push them to the future. This spares us anxiety in the present even if it makes things worse for the future (the immediate reward outweighs the future cost). Despite often being detrimental, this tendency to ‘put off’ stressful thoughts or unappealing activities is commonplace in many aspects of our lives, whether it’s simply completing a piece of work (95% of college students procrastinate), failing to prepare for a stressful performance or appointment, starting a new fitness regime, or delaying the need to make a difficult decision, we are adept at postponing things that cause us anxiety.

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Blame and responsibility; self-efficacy and control

It is not uncommon for people in debt to direct blame elsewhere, typically at the banks for acting unjustly, or at unavoidable circumstance, such as sudden illness or the loss of income. This was evident in the small group of debtors we met in Northern Ireland, and whilst there may often be truth behind these attitudes, they can equally be an example of self-serving bias (we have a tendency to skew and interpret situations in a way which protects our ego) and attribution error (when witnessing the mistakes of others, we attribute them to fundamental flaws in their character or abilities, but with our own errors, we attribute them to circumstance outside of our control).

Such traits are not conducive to proactively taking control of the situation. Continued blaming of the banks or abject circumstance is problematic (even if the blame is justified) as it can lead to debtors feeling that they are not in control of the situation (helplessness, resignation, a sense of inevitability, as highlighted by the borrowers we spoke to), or an unwillingness to act because it’s not their fault (anger, denial of responsibility, also prominent in the debtors we spoke to). In contrast, greater Self-efficacy (the belief that we can achieve something), and a sense of agency or autonomy (the belief that we have personal control over, and therefore responsibility for, our actions) can increase a debtor’s chances of seeking help. These traits are well established as critical in driving behaviours in many contexts: people who think they can personally achieve something are far more likely to successfully do so, and people who believe it is themselves who have control over a situation are far more motivated to act.

In helping people take control of a situation it is therefore important to distinguish between the responsibility for causing the debt (which may or may not be the fault of the banks or abject circumstance) from responsibility for finding a solution.

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(which rests with the borrower).\textsuperscript{73} Energies must be focussed not on blaming historic events, but on proactively moving forward, even if the possible outcomes over which debtors have control are all negative. Proactively claiming bankruptcy, or re-mortgaging, or finding cheaper living arrangements, are all preferable solutions to continual non-payment and withdrawal from the services which are trying to help. Anecdotally, debtors often claim a great sense of relief when they regain control and ‘move on’, even towards a ‘soft landing’ repossession.

**Poor prioritising**

One of the best predictors of whether someone will get into debt, is whether they are already in debt to another lender\textsuperscript{74,75}. This is unsurprising, and is a good justification for the use of credit ratings, but does highlight the important point that debtors often have multiple debts, introducing the need to prioritise payments.

There is some evidence to suggest that people in debt become more skilled at managing their limited funds,\textsuperscript{76} but that they do not always act in their best interest when paying off the debts – for example people often focus upon clearing smaller debts rather than starting to pay off larger debts\textsuperscript{77}, even if the interest rates make this a poor choice. In some instances this tendency to clear small debts ahead of larger debts works to the borrowers’ advantage, as it is the smaller debts (such as credit cards and pay-day loans) which often charge most interest. However, by not prioritising on housing debts this does put borrowers at a greater risk of repossession, and for this reason debt advice services often suggest prioritising on housing, heating and tax debts\textsuperscript{78}.

**Budgeting, and psychological spending barriers**

An important part of debt management is the careful budgeting of other expenses. As discussed previously, credit cards are not conducive to frugality because they

\textsuperscript{73} A Bandura (1992) Self-efficacy mechanism in human agency. American Psychologist, 37-2 pp122-147


\textsuperscript{78} For example, https://www.moneyadviceservice.org.uk/en/articles/how-to-prioritise-your-debts
make transactions easy, and they make costs less salient by delaying the consequences (future discounting). Debit cards are also not the ideal method of payment: studies have found that people are up to 100% more willing to spend when using plastic compared to cash\textsuperscript{79}. The relatively frugal behaviour of those using cash is not explained through liquidity problems, but simply because handing over physical cash feels more expensive. Using cash also introduces clear ‘decision points’ (described later) and psychological spending limits. For example, when approaching a purchasing choice with £30 in your wallet, there is a small but psychologically important barrier at play - spending up to £30 is easy, but spending more requires 1.) a trip to the ATM adding a small friction cost (effort), and/or 2.) the need to dip into funds which are psychologically quite ‘separate’ (those in the bank, rather than those in the wallet). Such barriers will encourage us to stick to our spending limit of £30, whereas paying on card removes such boundaries between funds making it easier for us to stretch our intended budget.

**Mental accounting**

The psychological ‘boundaries’ between funds described above are an example of mental accounting. In economic terms money can be described as ‘fungible’ because any one unit of it is exchangeable for another. In reality, however, we psychologically separate funds and treat them and non-interchangeable. For example, studies have shown that money which is ‘won’ (e.g. from gambling or lotteries) is much more readily spent than money which is earned\textsuperscript{80}.

Mental accounting can help us budget more effectively, by re-creating the psychological barriers that credit cards remove. For example, a traditional savings technique is to separate cash earnings amongst a number of envelopes earmarked for various needs such as ‘food’, ‘clothes’, ‘rent’ etc. Though it would be easy to take money from one envelope and mis-spend it, simply dividing and labelling cash in this way can be a great aid in overcoming temptation and sticking to a rigid budget\textsuperscript{81}. Smart-phone apps which serve the same purpose can also be effective,

\textsuperscript{79} D Prelec & D Simester (2001) Always leave home without it: A further investigation of the credit-card effect on willingness to pay. Marketing Letters, 12-1 pp5-12


\textsuperscript{81} Another well-known study demonstrated increased savings for future healthcare needs in rural Kenya simply by providing a lockable box to put money in - having a dedicated place for a health fund seemed to reduce the fungibility of the money: P Dupas & J Robinson (2013) Why don’t the poor save more? Evidence from health savings experiments. American Economic Review, 103-4 pp1138–1171
albeit they tend to require the diligence of monitoring and recording spending accurately, rather than physically separating it.

Framing
Changing the way that costs and savings are presented, or ‘framed’, can also be a useful trigger to spending less\(^\text{82}\) – for example, as mentioned previously, cash feels more expensive than plastic. We can also present costs in terms of other commodities, as in students’ habit of measuring their bills in terms of the number of alcoholic drinks the money could otherwise buy. Helping people appreciate accumulating costs can also help, for example presenting total life-time savings of a higher miles-per-gallon car\(^\text{36}\) (which seems more significant that the small per-gallon difference would suggest). BIT used this method by including the life-time running costs of washer-driers on the price label, resulting in a small but significant shift in purchases towards more expensive, but more efficient products (cheaper in the long run). One of the strongest and most studied framing effects is ‘loss aversion’, whereby we react more strongly against possible losses than we do towards possible gains. This effect has been shown in many situations, including health decisions (framed as number of lives lost versus number of lives saved) and financial behaviour\(^\text{83}\).

Timely prompts and moments of change
When prompting someone to behave in a certain way, whether that’s to fill in a budgeting form or to call a debt advice centre, timing matters, and people’s priorities and moods are greatly affected by the context of the moment. We are particularly likely to change our habits during periods of transition (such as when we move house, get married, have a child or lose a close relative\(^\text{84}\)). It doesn’t just take a big ‘life event’ to spur us into action, however, and more modest ‘decision points’ are also important, particularly for breaking habits. For example, it has been shown that people eat less popcorn when it is served in three small boxes rather than one large box, because the large box offers no obvious point at which to decide to stop (the \textit{partitioning effect})\(^\text{85}\). Arguably, the failure to act on steadily

increasing debt is partially rooted in the same problem – if the daily increase in debt is relatively small, there is no obvious point at which to break the habit of inaction. It is for this reason that steadily, incrementally worsening situations can often lead us into problems of far greater severity than we would have allowed to happen had the situation occurred more suddenly.86

Moreover, our decisions and behaviour are influenced by the objects, ideas and people we experience from moment to moment, and it is therefore important to prompt people during those moments they might be most receptive.87,88 For example, we demonstrated that sending text message prompts to pay court fines 10 days before bailiffs were due to arrive increased payment rates by three times, and asking people to leave legacy gifts at the moment they were writing their wills is a highly effective way to increase charitable donations.89 It has also been demonstrated that asking people to sign an honesty declaration at the beginning of a form, rather than at the end, significantly increases the accuracy of responses.90

Plans and implementation intentions
Making a plan is a reliable way to help people achieve a certain goal – breaking down a complex, daunting or unappealing task into manageable actions. This tends to be most effective when the plan is concrete, and specific, and one way this can be achieved is to simply ask people to write down their plan. For example, getting patients to write down the time and date of an appointment helps to reduce

86 This is the basis of the 19th Century anecdote of the boiled frog – put it in cold water and slowly bring it to the boil, and it will fail to notice the steadily worsening situation and die. Put it straight into hot water, however, and it will jump out. Like the frog, we benefit from an obvious, identifiable change in circumstance to spur us into action. This psychological trait is worsened by another tendency – we seek to be consistent and therefore use our own historic behaviour as a guide for future behaviour. Changing our habits or behaviour often feels like an admittance that our previous behaviour was wrong unless we can point to a clear change in our circumstance to justify the change in behaviour – e.g. participants continued to ‘electrocute’ innocent victims in Milgram’s 1963 study of obedience, in part because they’d already done so and did not want to admit they had acted unethically – it was easier to create excuses that justified (and therefore propagated) the behaviour than to admit wrongdoing.


89 O Service, M Hallsworth, D Halpern, F Algarte, R Gallagher, S Nguyen, S Ruda, M Sanders. EAST: Four simple ways to apply behavioural insights.

missed appointments\textsuperscript{91,92}. An even better approach is to identify likely barriers, and to prepare specific solutions (\textit{implementation intentions}): this approach now has a lot of evidence to support it\textsuperscript{93}. For example, if the goal is to lose weight, and an identified barrier is the temptation of desserts in the canteen, then having a specific planned response – to use the checkout on the opposite side of the canteen, for example – significantly increases adherence to the desired behaviour\textsuperscript{94}.

\textsuperscript{92} K Milkman, J Beshears, J Choi, D Laibson, & B Madrian (2012). Following through on good intentions: The power of Planning Prompts. Working Paper No. 17995
EAST framework

If you want to encourage a behaviour, make it Easy, Attractive, Social and Timely (EAST). The Behavioural Insights Team developed the EAST framework as a simple, pragmatic method to help think about behaviour change. These four simple principles for applying behavioural insights are based on the Behavioural Insights Team’s own work and the wider academic literature. Those interested in learning more can download the full report from www.behaviouralinsights.co.uk

We have used this approach to develop the suggestions in this report and we give a brief introduction to the approach here. The principles from EAST are:

Make it Easy

Harness the power of defaults. We have a strong tendency to go with the default or pre-set option, since it is easy to do so. Making an option the default makes it more likely to be adopted.

Reduce the ‘hassle factor’ of taking up a service. The effort required to perform an action often puts people off. Reducing the effort required can increase uptake or response rates.

Simplify messages. Making the message clear often results in a significant increase in response rates to communications. In particular, it’s useful to identify how a complex goal can be broken down into simpler, easier actions.

Make it Attractive

Attract attention. We are more likely to do something that our attention is drawn towards. Ways of doing this include the use of images, colour or personalisation.

Design rewards and sanctions for maximum effect. Financial incentives are often highly effective, but alternative incentive designs — such as lotteries — also work well and often cost less.

Cater to the ego and the emotions. Many of our decisions are made on their emotional impact rather than through careful deliberation. We are attracted to behaviours that make us feel good about ourselves, and we avoid things that lead to negative emotions or stress.
Make it Social

Show that most people perform the desired behaviour. Describing what most people do in a particular situation encourages others to do the same. Similarly, policy makers should be wary of inadvertently reinforcing a problematic behaviour by emphasising its high prevalence.

Use the power of networks. We are embedded in a network of social relationships, and those we come into contact with shape our actions. Governments can foster networks to enable collective action, provide mutual support, and encourage behaviours to spread peer-to-peer.

Encourage people to make a commitment to others. We often use commitment devices to voluntarily ‘lock ourselves’ into doing something in advance. The social nature of these commitments is often crucial.

Make it Timely

Prompt people when they are likely to be most receptive. The same offer made at different times can have drastically different levels of success. Behaviour is generally easier to change when habits are already disrupted, such as around major life events.

Consider the immediate costs and benefits. We are more influenced by costs and benefits that take effect immediately than those delivered later. Policy makers should consider whether the immediate costs or benefits can be adjusted (even slightly), given that they are so influential.

Help people plan their response to events. There is a substantial gap between intentions and actual behaviour. A proven solution is to prompt people to identify the barriers to action, and develop a specific plan to address them.
Suggestions

The following recommendations draw upon our EAST framework, the behavioural science covered within the literature review, and our own research and interviews with the NI Courts and Tribunal Service, the council of mortgage lenders, advice sector representatives, and a small group of repossessed borrowers. These specific suggestions are designed to increase borrowers’ engagement with the mortgage arrears/repossession process, whether that’s through lenders, the advice sector or the NI Courts and Tribunal Service.

Revise all letters and communications material
EAST Principles: Easy, Attractive
Aimed at: Lenders, NI Courts and Tribunal Service

The decline into mortgage arrears will, for most debtors, involves a lot of paperwork. During our interviews in Northern Ireland we were shown many examples of advice material, letters from banks, and legal documents sent to borrowers. In many cases the information was difficult to understand (for example the legalistic language used by the NI Courts and Tribunal Service in the documents served to borrowers), and the tone was not always appropriate (for example some of the correspondence from lenders was quite aggressive and implied that repossession was an inevitability – presumably designed to scare debtors into action95). Moreover, it was often unclear what the recipient was supposed to do, and borrowers claimed that guidance on seeking advice was often absent from bank correspondence. The volume of information was also quite overwhelming, particularly when legal action has commenced, despite some useful information not being included and requiring borrowers to go online. It also became apparent that some borrowers do not open many letters, in part due the belief that the contents will be bad news or useless because repossession seems inevitable. This tendency to ignore letters is something we have found in previous, similar projects, and was admitted to be the case by some of the borrowers we spoke to in Northern Ireland, as well as the experiences of advisors we spoke to.

BIT has done a lot of work testing different letters in a variety of contexts. It is not practical at this stage for us to reword specific letters but based on our extensive

95 There is some research to suggest that increased pressure from banks is correlated with increased seeking of advice (Money Advice Service/YouGov report ‘the effectiveness of debt advice in the UK). However, this research does not imply that aggressive or pessimistic correspondence is more effective than measured and helpful correspondence.
work testing a variety of ideas, as well as the substantial literature on the subject (some of which is covered within the literature review), we suggest the following 9 principles are followed when drafting letters from lenders to borrowers and used to inform any revision of the NI Courts and Tribunal Service’s summonses.

**From Lenders:**

1. **Keep the letter as short as possible**, ideally on one page.

2. **Make all the language clear and easy to understand**, avoid using jargon, technical or confusing language.

3. **The first paragraph is key.** Make sure this includes why you are writing, and crucially, what you want the recipient to do. Avoid including a lengthy back-story or unnecessary information at the beginning of the letter.

4. **Include clear action points.** BIT have consistently found that including a simple, bold, call to action at the beginning of a letter increases responses significantly. For example, ‘**You have entered payment arrears on your mortgage. This puts your home at risk. Please call us now on XXX XXXXX to help us find a solution**’. If multiple actions are necessary include a clear checklist.

5. **Don’t be aggressive or threatening.** A letter from the lender is often the first point of contact after a customer has entered arrears. This moment is critical for ensuring the customer feels they can seek help, trust their banks, and is willing to engage in productive discussion. It is also important to make sure the borrowers realise there is likely to be a feasible solution. Early letters from lenders should therefore impart the gravity of the situation, and stress the need to act (pressure from banks has been shown to increase advice seeking95), but should focus on finding a positive solution, rather than deterring or angering the borrower.

6. **Personalise letters.** We often respond more positively to correspondence which is personalised to us (by name) and is unique to our circumstance (i.e. not a generic letter). This could be particularly important during early correspondence with banks, and customers are likely to pay more attention to a letter which focuses specifically on their financial situation, than they would a standard notice of arrears/repossession which treats them impersonally.

**From the NI Courts and Tribunal Service:**
Principles 1 to 6 are all equally relevant to the NI Courts and Tribunal Service. In addition, we recommend the following

7. Help borrowers keep on track with a ‘road map’. Correspondence relating to the legal process follows a distinct customer journey, with consecutive letters sent over a period of time, and specific requirements at each stage. This can be confusing, particularly if previous letters from the lender were not opened or received. A key element of this correspondence is the court summonses, so the NI Courts and Tribunal Service may consider including a ‘road map’ with each court document (this suggestion is explained in greater detail below).

8. Use plain English, and include a simple cover letter. This is particularly important with legal correspondence. Even if legal documentation cannot be changed, letters do not have to be written in complex language. The summons could include a simple and brief cover letter summarising the purpose and contents of the enclosed documents, and clearly outline the required action (e.g. include a check list).

9. Make the advice services prominent. Advice leaflets might get lost amongst a large pack of legal documents. Consider also including clear, bold banners directing people to the advice sector on all summons cover letters.

Highlight the positive, using social-norm messages

EAST Principles: Social, Attractive

Aimed at: Lenders, NI Courts and Tribunal Service, advice sector

As currently written most of the letters sent from lenders highlight the risk of repossession if borrowers do not pay their mortgage. Some in particular had a strong sense repossession being an inevitability, which risks discouraging borrowers from engaging. Some borrowers even admitted that these letters discouraged them from making payments (why continue to pay if repossession is inevitable?). It is important that letters steer borrowers towards proactive engagement.

While repossession is indeed a possible outcome it is not the case for most people who engage with the Mortgage Debt Advice Service (in 2014/15, 1620 customers sought advice from the MDAS and only 36 (around 2%) of those received a possession order). It is not so easy to quantify the rate of repossessions for those who do not seek advice, however it can safely be assumed that for those who fail
to turn up at court (some 80% of cases), the rate of possession orders is very high as the judiciary cannot base their decision on any evidence other than that presented by the lender. This really highlights the importance of encouraging customers to engage with the process, both with the banks and the advice sector, and also attend court.

We know that social norms affect people’s behaviour, and we also know that the reason so many people fail to attend their hearing is (at least in part) due to the belief that repossession is unavoidable and there is therefore little point in turning up. One possible solution is to tell people that the vast majority of people do not lose their home, provided they act. By highlighting that a positive outcome is common so long as action is taken, borrowers are more likely to be prompted into seeking guidance or negotiating with their banks than if they are led to believe that there is nothing that can be done. For example correspondence could state: ‘98% of people who enter mortgage arrears find a solution and keep their home, provided they seek advice and act quickly. Please contact [advice service] today’.

Furthermore, we know that the identity of messenger is an important consideration when prompting behaviour. However, with social norm messages such as this, where the focus of the message is increasing awareness and changing pre-conceptions, more exposure generally leads to a greater effect. As such this message could be delivered by lenders, the NI Courts and Tribunal Service and advice providers. The message is also likely to be most effective if delivered early, to ensure that borrowers who have recently entered arrears are aware, from the outset, that hope is not lost and that help is available.

Help people keep track of the legal process, by including a customer ‘road map’

EAST Principles: Easy

Aimed at: NI Courts and Tribunal Service (this could also apply to the lenders and their solicitors to maximise impact)

Once the mortgage lender starts the repossession process, borrowers are subject to a long and complex series of correspondence, much of which is written in legalistic language, and is difficult to understand and keep track of, with each stage usually having one or more requirements (responding, turning up at court, filling in a budget form etc). Similar letters and forms may come both from lenders and from the NI Courts and Tribunal Service, and customers may not automatically differentiate between the two, adding confusion. In other cases a summons from the NI Courts and Tribunal Service, which are issued by the lender, may be the first
correspondence they have received, or recall receiving (this was the case according to some borrowers we spoke to). The task of understanding, responding to, and keeping track of this paper trail is therefore extremely complex, and we believe it could be made a lot easier.

One way to do this would be to include a customer ‘road map’, to be included as a cover note on all NI Courts and Tribunal Service summonses. Including the road map as part of the summons would require lenders to issue this supporting information (as opposed being obliged to issue a separate leaflet). The purpose of this road map would be to clearly indicate:

1. At what stage in the process this particular legal document sits.
2. What the purpose of this letter/form/hearing is, and what should come of it.
3. What they should have received and done previously.
4. What will happen next.

This should be presented simply, most likely graphically, and include all stages of the court proceedings from pre-action to repossession, with ‘exit points’ (solutions) also indicated. All letters, forms and paperwork should reference this road map, for example with each step on the map being numbered, or using a system of coloured paper.

By presenting the same road map on all correspondence the recipients can easily follow the process, would know what to expect next, and would gain a clearer understanding of the route to repossession and the various opportunities for finding a solution, helping to overcome misconceptions that nothing can be done or that court hearings are not worth attending. Keeping in mind our recommendations above to keep correspondence brief and to include clear action points, we would recommend including the road map on a single-page cover letter which also summarises the purpose of the enclosed documents (in plain English) and includes a checklist for actions that need to be taken.

We believe this suggestion would have a positive impact if applied just to the NI Courts and Tribunal Service communication, which is a complex series of correspondence on its own. Greater impact could be had, however, by integrating the correspondence from lenders and lenders’ solicitors into the same road-map. For example, a cover letter including the road-map alongside some initial guidance
could be included as part of the pre-action protocol ensuring it is the first piece of paperwork that a customer receives.

**Help people make clear, specific plans – implementation intentions & commitment devices**

**EAST principles: Timely, Social**

**Aimed at: Advice sector, Lenders**

Within the literature review we discussed the benefit of helping people make specific plans, and breaking down complex or daunting tasks into small, manageable steps. A particularly useful approach to this, backed up by a very large body of research, is to make ‘if, then’ type strategies to overcome possible barriers. This involves identifying likely obstacles (‘if…. happens), and finding, in advance, solutions (‘…then I’ll do this). Such an approach is helpful in navigating complex or stressful tasks as it not only breaks down the journey in manageable steps but it also removes a lot of thought process from the moment by having pre-made solutions to hand.

These ideas can be translated to mortgage debt by helping people set specific plans and solutions to the obstacles they are most likely to come up against. For example, ‘if you receive another letter from the bank, then phone an advice centre the same day’, ‘if your arrears goes over £1000, contact your bank immediately to restructure your payment plan’, or ‘if I get another job, then I’ll revert back to my original payment plan’. These kinds of implementation intentions need to be suggested in a way which is genuinely helpful, and not patronising or overly paternalistic. One way of doing this might be to highlight what other borrowers have done with success. It also helps if they are specific and contain a deadline, to avoid procrastination.

Part of the value in making plans is committing to a certain course of action. We are much better at sticking to those commitments when made publically – for example we may let ourselves down on our intention to get fit, but are more likely to go to the gym if we commit to going with a friend. BIT developed an intervention with Jobcentre Plus that introduced commitment devices between

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job seekers and their advisors. Job seekers were asked to write down specific commitments to job-seeking activities for the coming week, the result being a significant increase in off-flow rates from benefits. A similar arrangement could be made when lenders and borrowers in arrears agree upon a new payment plan, ensuring that the borrowers have detailed plans in place to help them stick to their payments (‘if interest rates rise, then…..’; if my heating bills increase over winter, then….’; ‘If I get my job back, then…..’, etc). This is particularly pertinent given the frequent drop-off seen in borrowers’ payments, often around 3 months after agreeing a new payment plan. The same process could also apply to those who wish to take more equity out of their property, or indeed any change in circumstance which requires some contact between borrower and lender. Similarly, this arrangement could apply between debt advisors and borrowers, who could, collaboratively, draw up a series of commitment devices and implementation intentions during their first call.

Make sure people get the message – text prompts and handwritten envelopes

EAST Principles – Attractive, Timely

Aimed at: Lenders

We know that many borrowers do not open letters from banks. Reasons for this include the overwhelming volume of correspondence, denial (see literature review), the fear of bad news, or resignation that nothing can be done so there is no point in engaging. There are a number of ways we can tackle this.

People respond more positively to things which are personalised, and to things that stand out and to which their attention is drawn. For example, we ran a trial demonstrating the letters were more frequently opened when handwriting a message on the envelope, e.g. ‘David, this is important – please read carefully’. Coloured envelopes can also work well, though may backfire if used repeatedly as recipients would soon learn that blue envelope = court summons, for example.

A number of studies, including some trials by BIT, have shown that text messages often have far higher response rates than letters. This may in part be due to the ubiquity of mobile phones, but also the immediacy of the medium as letters are often put aside and forgotten, whereas texts tend to be read on receipt. Whilst texts are of limited use for sending detailed information, they can be very powerful prompts. For example, we significantly increased the clearance of debts by sending a text message 10 days before bailiffs were due to arrive. The same intervention may work well to prompt people into attending their court hearing.
Similarly, text messages could be sent out in conjunction with letters: ‘You should receive a letter from [lender] today – this contains important information about your mortgage arrears. You can still save your home, so please read the letter carefully’.

Help people to get advice early

EAST Principles:

Aimed at: Lenders, Advice Sector, NI Government

There are many existing sources of advice which an individual can use if they want some information about how to deal with managing their money. Much of the information relates to debt, in particular how to manage and over time, reduce, debt. Whilst leaflets are sent out by banks (though some borrowers claimed they’d not received any direction to the advice sector from their bank) it is normally the case that borrowers must proactively seek information. Borrowers we spoke to recalled their own research efforts (often online) and their frustration at not having been aware of the advice services earlier. Even when borrowers may be aware of the advice services available, denial and procrastination are common responses to dealing with difficult situations. Timely prompts, and proactive contact from lenders or advisors, are one way to help people deal with the situation.

We recommend that lenders, debt advice organisation and the Department for Social Development (DSD) should work together to identify those at risk of mortgage arrears and proactively contact them. Two ways of identifying those at risk of mortgage arrears are available to government, subject to data protection considerations: data showing those households with rates arrears and the requirement for businesses with employees facing bankruptcy to register with the Department of Employment and Learning. It seems reasonable that both of these data sets will provide information about individuals at higher risk of falling into mortgage arrears than the average population. We suggest analysis of these data to see if this relationship does in fact hold. If the analysis suggests these two data sets are good predictors of those people who subsequently fall into mortgage arrears it could be used to generate a contact list to target messages about seeking help on budgeting.

Who this proactive approach comes from, and the format it is in, is key to determining whether it has the desired effect. During our field research we heard of a number of examples where banks had identified borrowers at risk of arrears
and had contacted them proactively to discuss ways to manage their debt. Often borrowers responded negatively to this approach, feeling the bank was meddling in their personal business or making false (somewhat insensitive) assumptions about their financial situation. This is understandable as borrowers will not readily admit to having financial problems before they’ve entered arrears. One lender circumvented this issue by contacting customers for another reason, then steering the conversation towards mortgage payments, with some success. Given that the identity of the messenger can be particularly important with sensitive issues such as this, it might be favourable for the independent advice providers to act as messengers here (particularly if banks have working relationships with particular advice providers), though there is a risk that customers will object to the idea that a third party organisation is in possession of their personal financial details. These approaches would therefore need to be researched and scripted very carefully to determine the best approach.

**Make it easier to find advice**

EAST Principles: Easy

**Aimed at: NI Government, Advice Sector, Lenders**

At the moment there a numerous bodies offering debt advice through a number of different channels. We know that many people only contact their bank but even if they do try and find independent help it can be unclear which of the available options are best suited to them. A leaflet sent out by the NI Courts and Tribunal Service lists three different advice providers with no further information about how to decide between them, or whether they provide the same or different services. In some cases too much information can mean that people end up not making a decision at all, and small ‘friction costs’ can have a surprisingly large impact on our willingness to take action. It may therefore be beneficial to direct borrowers more clearly to one service. Whilst the MDAS does in theory act as a single point of contact for mortgage debt advice in Northern Ireland, borrowers are presently provided with multiple advice providers and are unlikely to distinguish between the MDAS and other independent advisors. We understand the challenges of signposting the public a single advise provider (such as MDAS or MAS) at the exclusion of others, but simplification may also be achieved by making it clear which advice providers specialise in different types of advice for different circumstances, or by providing feedback from previous users about how helpful

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they found the service. When designed properly feedback loops have been shown to be extremely powerful ways of shaping markets.98

**First point of contact is key - make it positive, useful and simple**

**EAST Principles: Easy, Attractive, Social, Timely**

**Aimed at: Lenders, NI Government, NI Courts and Tribunal Service**

Our field research suggested that some borrowers contacted their banks as soon as they thought they would have problems paying their mortgage (in some cases contact was proactively made after they had missed a payment). The usefulness of this contact seemed to depend heavily on the bank, and the bank employee who answered the phone. The small number of borrowers we spoke to all reported negative experiences saying they felt the employee they spoke to was often unable to offer a solution (such as negotiate a new mortgage plan), and often didn’t realise that Northern Ireland’s regulations were different, and all they could do was take a payment over the phone. These anecdotal findings are supported by research suggesting that creditors are the least helpful advisors.99 It is naturally very frustrating for borrowers to proactively make such efforts to no avail, only to then receive a (sometimes quite aggressive) letter from the bank threatening repossession.

This state of affairs is not prevalent in all banks, but does seem surprisingly common. This was acknowledged by some of the lenders we spoke to who recognised that their systems do not allow pre-emptive changes to payment plans until borrowers are in at least 3 months arrears (and reaching this often take much longer than 3 months’ of difficulties, as many customers only miss occasional or partial payments).

It is therefore recommended that banks review their processes to:

1. Better allow for pre-emptive and early-arrears support. This largely ties into the pre-action protocol which banks are obliged to follow but which is, according to some interviewees we spoke to, sometimes followed as a tick-box exercise but not in the full spirit intended. It may therefore be

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worthwhile to review the obligations that banks have to support their pre-
and early-arrears customers, and to assess the performance and
effectiveness of the current pre-action protocol. This will in part depend
upon recognising at-risk customers (see ‘help people to get advice early’
section above) so that their financial needs can be addressed before they
enter arrears.100

2. To ensure that first correspondence is not aggressive, but instead points
borrowers towards advice and a sustainable solution (see point 5 in the
‘revise all letters and communications’ section above).

It is clear that the poor relationship between many lenders and borrowers is a
fundamental issue. We know the identity of the messenger is of key importance in
forging a useful and trusting relationship, and so there may be benefit in using a
different messenger for the first point of contact. For example, as per the ‘road
map’ suggestion above, the pre-action protocol could dictate that the first piece
of correspondence is a standardised letter, including this road-map, a clear
explanation of what is likely to happen, pointing them towards an advice provider,
and forewarning customers that they will soon receive communication from the
bank. This could co-branded by the NI government, MDAS and the bank. We
believe this could significantly reduce the shock and put customers into a far more
productive and prepared frame of mind before lenders formally start the
repossession process.

Use incentives to encourage savings and arrears payment
EAST Principles: Attractive

Aimed at: Lenders, NI Government

It has long been recognised that financial incentives can be a particularly powerful
way to influence behaviour, and Behavioural Insights give us some suggestions
about how to refine those incentives. It might seem that people already have a
sufficient incentive to avoid arrears and prioritise paying their mortgage, however
the reality is that people often prioritise smaller debts (such as credit cards), and
we are not very good at financially planning for the future, so may slip into a state
of arrears which could have been pre-emptively avoided. Moreover, people who
feel that repossession is inevitable will not be incentivised to pay their mortgage

100 For a detailed report of Barclay’s own review of their pre-arrears advice service, see
http://www.bristol.ac.uk/media-library/sites/geography/migrated/documents/pfrc1112.pdf
debts. Therefore it may be worth considering reforming some of the financial incentives to make repayment, and saving, more attractive. These could take many forms, and we suggest three possibilities – one to prevent at-risk borrowers from slipping into arrears, one to encourage those in arrears to prioritise and stick to their mortgage payments, and one to help those who are paying off arrears to save more and protect themselves from financial shocks.

- **Rainy-day savings products.** *(for those at risk)* To help people build up a savings buffer, they could be offered a ‘rainy day savings account’, into which a small proportion of their monthly salary is deposited, similar to a pension scheme. There are a number of ways to encourage uptake of such a service, for example with employers’ collaboration customers could be prompted into a ‘save-as-you-earn’ product. Alternatively, customers could be incentivised with high interest rates on these rainy-day savings, though we would advise that high interest rates are not particularly effective at enticing new savers (they are more effective at encouraging existing savers to transfer their savings). Instead, upfront incentives (lump sums, gifts, or even entry into lottery rewards schemes) may work better. Incentives could also come in the form of subsidies, funded by lenders or the NI government, in a similar manner to the newly introduced ‘save to buy ISA’ to which the UK government contributes an additional 25% of customers’ own deposits.

Such financial products could be offered universally to encourage savings amongst the NI population, though may be more effective if offered ‘exclusively’ by banks to those identified as high risk. We feel these incentives to save are particularly pertinent as a preventative measure in Northern Ireland given the high number of mortgage holders who are ‘at risk’ or ‘highly geared’, justifying such pre-emptive measures.

- **Cashback to help arrears customers stick to a new mortgage plan.** *(for those in arrears struggling to stick to their plan)* Many of the lenders we spoke to mentioned a common drop-off in payments from arrears customers, often around 3 months after a new (and supposedly more sustainable) payment plan was set up. One way to overcome this might be to offer a ‘cashback’ scheme whereby customers receive a financial reward for 12 continuous months of successful payment. Some of our previous work around increasing voter registration has demonstrated that positive financial rewards can be effective even when a negative financial incentive (such as fines) already exist. This cashback could be timed to protect
against likely payment problems (e.g. a Christmas bonus), could be held against the mortgage balance, rather than spent, or could be deposited into a ‘rainy day savings account’ to protect against future missed payments.

**‘Over-payment’ plans.** (for those in arrears who are able to stick with their new plan) Many borrowers will have entered arrears temporarily but successfully arranged a new payment plan to help them clear their debts (e.g. those who were temporarily out of work). It would be possible to re-structure their plan in a way which over paid, with the excess being credited into an emergency fund, rather than being used to clear the mortgage. This would provide a buffer to protect the borrower from future shocks such as interest rises or unexpected financial difficulties.

The terms of this emergency fund could be tailored in a number of ways, to determine when it could and could not be drawn upon (what constitutes ‘an emergency’), and what benefits the customer might receive if the fund was not needed for an extended period of time. For example this emergency fund could be used as a self-funded ‘bonus’, combining the two suggestions above, whereby customers receive a windfall in return for regular over-payments over 12 months. Whilst it might seem odd to reward customers with their own money, similar schemes have proven somewhat successful in other contexts as they encourage us to ‘lock ourselves into’ a pattern of behaviour which we want to succeed in, but for which we are aware of our limited will power (a commitment device – a voluntarily imposed reward/penalty for meeting/not meeting an objective). We acknowledge that it is often easier when we are forced into something, and this idea has been popularised by stickk.com, a website allowing users to create their own commitments and financial costs of not meeting them, inviting friends and family to referee the contract.\(^{101}\)

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**Change the possible outcomes**

**Policy suggestion**

**Aimed at: NI Government**

If people are in mortgage arrears there are two main outcomes: first, they repay their arrears and continue as before or second, they do not repay their arrears.

\(^{101}\) [www.stickk.com](http://www.stickk.com)
and eventually lose their homes. This is traumatic in itself but made worse by the need to move (always a hassle) and to give up what is often a family home that has been lived in for a long time. There may therefore be a way to provide a ‘soft landing’ whereby people lose ownership of their home but are not evicted. The Government may want to consider introducing a programme based on the ‘mortgage rescue scheme’ which means that people can stay in their homes even if they cannot afford to repay their mortgage arrears.

The mortgage rescue scheme was available in England between January 2009 and April 2014 (we have been unable to find out why it ceased). The scheme was never available in Northern Ireland but it is still running in Scotland and parts of Wales. Using mortgage rescue, local authorities can help individuals stay in their home as a tenant or part-owner/part-tenant rather than being rehoused. Before applying to the scheme individuals must have already tried all other options available to them to keep their home.

There are two possible outcomes from the mortgage rescue scheme:

- **Shared Equity option**: provide households with an interest-only loan to pay off some of their mortgage and reduce their monthly payments;

- **Government Mortgage to Rent option**: pay off the mortgage and buy the home so that the individual can stay there as a tenant.

**Awareness raising – commission a television programme**

**EAST Principles: Attractive, Easy, Social**

**Aimed at: NI Government, Advice Sector**

Two common themes throughout our fieldwork were an unawareness of the help available, and the shame of being in mortgage arrears. Borrowers and advice providers in particular were of the view that one of the major factors explaining why people do not seek help or advice earlier was because they are embarrassed about their situation. This stigma seems to be fuelled by the misconception that they are the only ones with debt problems, and the fact that social networks are strong in Northern Ireland so there is a great risk of friends and family finding out. A suggestion by a number of the borrowers we spoke to was to develop a television programme to talk about the Northern Ireland housing market and how it has affected everyone to a greater or lesser degree. While this might sound like a slightly unusual suggestion we think this is an idea that merits further
consideration. The behavioural literature shows that mass-media awareness can reduce prejudice and stigma\textsuperscript{102,103}. Such a programme could also act as a medium through which to increase awareness of the process borrowers should go through, where they should turn for help, and the importance of acting quickly.

We also know from the behavioural literature that the identity of the messenger can be more important than the message itself, so we must consider if messengers are relatable, credible and likeable in the eyes of borrowers\textsuperscript{104}. For example, many of the borrowers we spoke to felt they did not have an amicable relationship with their banks, with a lack of trust and an unwillingness to speak with them. In contrast, most borrowers were extremely positive about their relationship with the advice sector, only wishing they were aware of the help available much sooner. Commissioning a television programme provides a unique opportunity to present to borrowers the stories and advice of other borrowers who have been through the process. Empathy is important, and we are often much more willing to take guidance from those who we feel are similar to us, and have been through a similar situation. MDAS customers would therefore be well suited for the focus of the programme, emphasising on overcoming the various obstacles and reaching positive solutions, rather than a sensationalist view on irresponsible banking or aggressive repossession.

A television programme is not the only way to increase awareness, and a more traditional advertising campaign may also be effective (though offers less opportunity to impart detailed advice and change perceived social norms). It is also important to recognise that awareness campaigns do not need to stand alone, but are part of a broader solution. Simply increasing the ‘public consciousness’ around debt can benefit other interventions too – people will be more receptive to many of the ideas discussed in this report because the subject matter is more familiar (the \textit{mere exposure effect} – the ‘oh yes, I’ve heard about this on the news’ effect). In other words, mass-media awareness campaigns can be beneficial in their own right, but also prime people to be more receptive to other interventions.

\textsuperscript{102} S Clement et al (2013) Mass media interventions for reducing mental health stigma. Cochrane consumers and communication group. Published online
\textsuperscript{103} G Vaughan & C Hansen (2004) Like minds, like mine: a New Zealand project to counter the stigma and discrimination associated with mental illness. Australian Psychiatry 12–2, pp113–117
\textsuperscript{104} Paul Dolan et al (The Cabinet Office) MINDSPACE: Influencing behaviour through public policy
Map the customer journey, and identify key ‘moments of change’ and ‘decision points’

EAST Principles: Timely

Aimed at: NI Government

We know that timing is extremely important when you are trying to change people’s behaviour. We are more susceptible to prompts at key moments of change. While carrying out this work BIT has tried to identify the customer journey that people at risk of, or with, mortgage arrears go through. For example, it seems reasonable to expect that a certain proportion of people fall into mortgage arrears because they lose their job and as a result they will visit a Jobcentre which could provide a good moment to prompt them to plan how they will pay their mortgage or to direct them to an advice provider. The same could be true of life-changing illness, with hospitals or GPs providing logical points of delivery for advice. It is not known how common these routes into arrears are, and BIT was unable to find detailed information to generate a comprehensive customer journey. However, we suggest that DSDNI might wish to consider undertaking such an exercise to identify key points at which intervention will be most effective.

Conclusions

The situation with Northern Ireland’s housing market poses many difficult challenges for policy makers and has serious implications for thousands of citizens. Resolving these issues will require concerted efforts by Government and mortgage lenders. However there is also a role for behavioural insights to be used to help improve outcomes for individuals; in particular by trying to encourage borrowers to help themselves by seeking advice and engaging productively with their mortgage lender, as well as by making the journey through the NI Courts and Tribunal Service as simple and easy to manage as possible.

The ideas set out in this report all seek to change behaviour. All the ideas are rooted in established behavioural science but context is always important. As such we cannot be sure how successful each of these suggestions may be within the context of Northern Ireland’s mortgage arrears. BIT is a strong advocate of using randomised controlled trials to test different approaches, and many of the ideas set out above are the perfect candidates for this kind of approach.