Have the edges of homeownership in Spain proved to be resilient after the global financial crisis?

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The direct effect that an exogenous shock like the global financial crisis (GFC) had on the border between one form of tenure and another is particularly interesting in countries were owner-occupancy predominates. Right before the GFC, Spain was experiencing a major housing price bubble, allowing great expectations on housing equity gains together with extremely high numbers of mortgage-indebted households. The GFC represented a major threat for those households at the edges as their financial fragility increased. The aim of this paper is to identify why the edges of ownership in Spain came to be so precarious after the GFC and to assess how resilience is improved (considering both vulnerable households affected by the crisis and those that may be affected later) by securing the future of the edges of homeownership and reducing the volatility observed in an ownership-centred housing market. We will use the MDSR (Mortgage Debt Service Ratio) as an indicator of the higher vulnerability of those on the edges of homeownership. Looking at the consequences at the edges of the GFC in a home-ownership dominated market will provide the arguments for drawing up policies and actions for a new long- term tenure scenario in Spain.

Keywords: housing systems; tenure structure; financial fragility; Spain; edges of homeownership

Introduction

European countries are facing one of the deepest economic crises in recent decades: productive structures, households, and financial systems have been struggling to overcome this critical situation for some time. An extensive body of literature (Ball, 2013; Duca, Muellbauer, & Murphy, 2010; Martin, 2010) has been devoted to analysing the consequences of the economic and financial crisis on households in Europe. Some of the critical issues at stake include household financial stability, possibilities and/or needs for residential change, and the long-term effects on tenure in housing systems.

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However, not all European countries are affected by the credit crunch, insolvency, and delinquency in the same way. Differences can be found in the habits and cultures of populations with regard to loan dependency, financial and political structures, and general context variables. In some countries (e.g., Spain and Ireland), the public authorities have recently been criticised for being unable to predict the adverse consequences of the excessive risk taken on by households when purchasing a home. In fact, considering housing as a pure consumer product (essential for human development) or as an investment asset with high returns may represent a conflict of purpose behind any policy that tries to combine stimuli for both meanings. This has been a major source of historical divergence between European countries and a critical aspect for understanding the aforementioned differences in effects of and reactions to the crisis.

The edges of homeownership are defined according to the border that separates property ownership from all other types of tenure (Wood, Smith, Ong, & Cigdem, 2013). Thus, families, throughout the different phases in their housing career, move from one form of tenure to another crossing that border. In housing systems where tenure is highly complex, the edges of homeownership expand in a multidimensional way towards each of the possible alternatives: private rental, public rental through housing associations, shared or intermediate tenures, or temporary ownership. When analysing the edges of homeownership of any housing system, we must take into account the direct effect that exogenous shocks (a real estate boom or an economic and financial crisis) have on the border between one form of tenure and another. When we refer to the edges of homeownership, we are referring to those situations where people are either on the verge of entering ownership or on the verge of leaving. Normally, the transition of families throughout their housing career is expected to move in the direction of owner-occupancy and, once in this form of tenure, improvements are made in terms of quality and suitability. It is a unidirectional move and with few options for turning back. When a deep alteration takes place in the context and career path of families (unemployment, income instability, etc.), a question mark appears around how households that find themselves on the edges of tenure (i.e., 'within' ownership or 'on the verge' of entering owner- ship) will behave. During the period of economic expansion, the occupation of the edges of homeownership by people with insecure resources and who are potentially vulnerable in the case of any unexpected shock put the wellbeing of a large number of families at risk.

The resilience of homeownership is determined by the set of mechanisms that allow homeowners to diminish the negative effects of being on the edge, either by enabling them to remain in this type of tenure or through the delivery of housing provision alternatives. The resilience of these edges or borders will be primarily determined by the actions carried out by the actors involved in a given housing system; namely, families and their respective family support networks, developers and the housing supply together with the financial system and its monitoring of

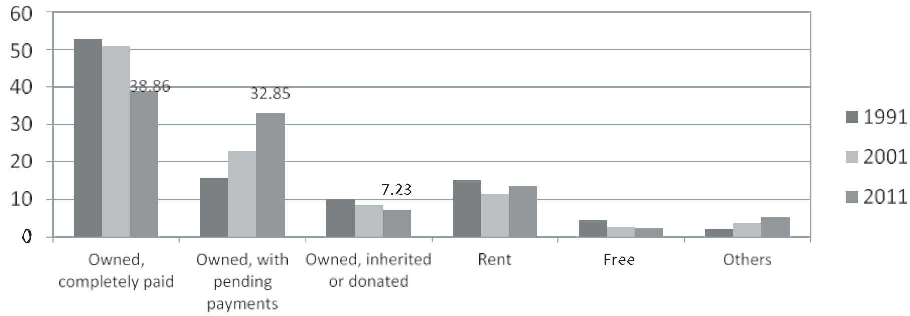

Figure 1. Housing tenure, Census 1991, 2001, and 2011, percentages.
Source: INE (Spanish National Institute of Statistics).

household indebtedness, and, finally, housing policy and the instruments it has developed to face the aforementioned shocks.

The analysis of the edges of homeownership is particularly interesting in countries were owner-occupancy predominates. Spain shows the main features of housing systems found elsewhere in Southern Europe (Poggio, 2012): a high percentage of owner-occupancy and very low levels of social housing, a significant volume of second and empty homes, and the considerable importance of family networks for facilitating housing access. According to the last census (2011), 79 per cent of Spanish households were owner-occupiers: of that percentage, 38.86 per cent had completely paid off the mortgage, 32.85 still had a mortgage, and 7.23 per cent of houses were donated or inherited (see Figure 1).

After the Civil War (1936–1939), Spain did not opt for the creation of a powerful social rented housing sector in order to meet its most urgent demands nor did it promote a broad tenure system that would enable greater freedom of choice for households. Moreover, since the arrival of democracy, governments have neglected the stimuli needed to enlarge the private rented sector as an alternative to social housing and have failed to create a public rented sector (Pareja-Eastaway & S´anchez-Mart´ınez, 2011).

The resilience of actors after a shock like that of 2008 in a dichotomous tenure system such as the Spanish one is of particular interest when reinterpreted from the perspective of the edges of homeownership. First, because over the course of years of real estate expansion and easy credit access, an ownership-focused system has allowed more families to enter this form of tenure than ‘rationally’ would have entered. Second, because the effects of the crisis in Spain have been devastating and have caused many families to suffer the consequences of the high level of permeability of the edges of homeownership while at the same time facing a lack of clear alternatives. Lastly, Spain presents a unique case characterised by the significant role played by family among those located at the edges when it comes to accessing housing through ownership (Allen, Barlow, Leal, Maloutas, & Padovani, 2004). However, after the GFC (global financial crisis) and facing the inability of families to continue serving as a support to ensure resilience in ownership, civil society has demanded effective measures to alleviate the negative results of insufficient resilience at the edges from other agents, namely banks and housing policy itself, through genuinely bottom-up processes like those led by the PAH (Platform of Mortgage Victims).

The aim of this paper is to identify why the edges of ownership in Spain came to be so precarious after the GFC and to assess how resilience is improved (considering both vulnerable households affected by the crisis and those that may be affected later) by securing the future of the edges of homeownership and reducing the volatility observed in an ownership-centred housing market. First, we want to look at the impact of the economic and financial crisis on a specific market segment (homeownership), exploring how the GFC exposed and added to household vulnerability at the edges of ownership. In particular, we will use the MDSR (Mortgage Debt Service Ratio) as an indicator of the higher vulnerability of those on the edges of homeownership. Second, we will look at possible pathways to improving resilience. Some simply try to alleviate the damage done to the most vulnerable households that were negatively affected by the crisis, others involve medium- and long-term measures aimed at changing the traditional make-up of tenure in Spain, and, lastly, we will look at options that involve innovation in terms of methods for accessing housing through funding or provision itself, such as, for example, intermediate tenures. Finally, we conclude by examining how to use the mistakes of the past to improve the future of a system that, until now, has been secure in its ownership-centred identity.

The financial crisis and homeownership in Spain: increasing household vulnerability

The impact of the financial crisis has certainly been uneven across Europe. While, for instance, Germany presents a striking example of relative immunity to the crisis, Spain has been one of the most negatively affected countries. The variety of the consequences of the recent economic and financial downturn in housing markets is huge. Here we will look at the role played by the relative weight of homeownership, considering that it may be a key variable for explaining at least some differences in the consequences of housing market instability.

Boom and boost in housing and mortgage markets

Underlying the uncertainty and stagnation of the housing market we also have the complex situation of many Spanish households, the banking system's current excessive caution when granting loans, and the lack of efficient measures to counterbalance the negative effects of the recent boom period. The predominance of homeownership in recent decades is extremely difficult to change. However, the increase in awareness of the risks associated with homeownership among households may have contributed to the slight increase in tenants living in the rented sector.

Since 2007, awareness of the dangers of having too many highly leveraged homeowners with limited resilience to economic stress has grown (Kofner, 2014). However, almost 15 years ago in Spain, the expansion of the real estate sector together with the mechanisms provided by governments and financial institutions to develop and/or buy housing geared toward homeownership hid any suspicions around exposure to potential upcoming shocks.

Therefore, a relatively large share of total Spanish mortgage assets was issued when housing prices were considerably overvalued and when the general public was willing to take on substantial monthly payments resulting from the mortgages. This situation dramatically changed after the financial shock in 2007. While around 8.5 million mortgages were approved between 2003 and 2007 in Spain, slightly less than 4 million were signed between 2008 and 2013 (see Figure 2). As we shall see later, the subsequent fall in housing prices since 2007 and the rapid increase in overall unemployment created a problem of potentially significant credit default, resulting in an increase in non-payment that was higher than expected when the loans were granted.

At first glance, it can be argued that the huge drop in the number of mortgages (82 per cent between 2006 and 2013) and, consequently, in the amounts of the mortgages granted by financial institutions (87 per cent for the same years), has reduced the possibilities of purchasing a home by means of a mortgage. According to data provided by the General Council of Notaries (*Consejo Judicial del Notariado*), while during the real estate boom more than six mortgages were signed for every ten house sales, in 2012 the ratio was below four. This means that in that year only 37 per cent of housing transactions were financed with a mortgage guarantee.

Nowadays, negative equity and mortgage repayment arrears are among the most significant outcomes for homeowners. For instance, according to the Spanish

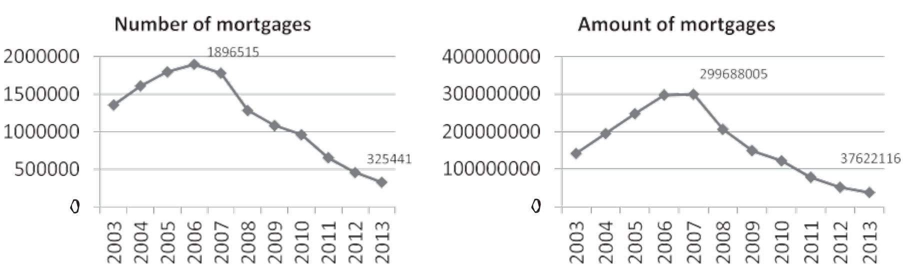

Figure 2. Number and amount (in euros) of mortgages, 2003–2013, total.
Source: *Asociacio´n Hipotecaria Espan~ola* (Spanish Mortgage Association), several years.

Table 1. Existing mortgages and foreclosures, 2012.

	Primary residence	Other housing	Total
Existing mortgages	6,029,177	552,631	6,581,808
Foreclosures	39,051	5694	44,745
Voluntary returns	19,716	1255	20,971
Datio in solutum	15,174	793	15,967
Court-ordered returns	19,335	4439	23,774
Court-ordered returns – empty	16,463	4077	20,540
Court-ordered returns – occupied	2872	362	3234
Court-ordered returns with police intervention	267	79	346

Source: Banco de Espa~na (2014).

Mortgage Association (2014), household mortgage delinquency (percentage of default over the total amount of mortgages) has sharply increased in the last five years: from 0.4 per cent in 2007 to approximately 6 per cent in the first quarter of 2014.

Data available on foreclosures from the High Court and the General Council of the Judiciary (*Consejo General del Poder Judicial*) show that between 2008 and 2013 approximately 500,000 foreclosure procedures were presented and 309,560 were carried through. These actions followed an upward trend from 2007 and stabilised between 2011 and 2013 at high levels.[1] Data from 2012 (Banco de Espana, 2014) show that for that year, the number of housing foreclosures in relation to the number of household mortgages was 0.68 per cent (see Table 1), and 0.65 per cent for primary residences. *Datio in solutum* (debt cancellation on handover of the mortgaged home) on houses accounted for 35.7 per cent of total foreclosures, and 38.9 per cent for primary residences. Of the repossessions that occurred during 2012, approximately 86.4 per cent of the cases involved homes that were empty at the time of repossession; 85.1 per cent in the case of primary residences. The number of home handovers under court-ordered foreclosures was 346 in 2012. Also in 2012, 88 per cent of the mortgages that led to repossessions involved owner- occupied dwellings purchased in 2007 or earlier.

In 2013, there were 38,961 repossessions (39,051 in 2012, as Table 1 indicates), of which 17,907 were voluntary and 21,054 took place through legal mechanisms (including both vacant and occupied homes). This information reveals that almost 30 per cent of mortgage foreclosures published by the General Council of the Judiciary for those years corresponded to primary residences, whose occupants were evicted through court proceedings. Following Rodriguez's (2014) calculations, if the proportion from 2012–13 applies to all mortgage foreclosures in the period 2008–13, there would be a total of over 90,000 houses returned to banks as a result of foreclosure proceedings initiated in this period.

In addition, and according to the Centre of Economics and Business Research (CEBR, 2013), in 2012, approximately 359,000 mortgages were in negative equity[2] with expectations for this to increase to 581,000 by the end of 2013. The same source states that the number of mortgages in negative equity in Spain is forecast to rise to 710,000 by the end of 2015 when the average LTV ratio will reach 121 per cent for those in negative equity.[3]

Those critically affected by a huge mortgage burden are households that entered the housing market (and usually the labour market) between 2000 and 2005, when the banking system favoured high levels of indebtedness and the housing market was overheated. In Spain, family support and networks of relatives or acquaintances usually emerge as a substitute for a weak and unambitious welfare state that is granted relatively limited importance in overall public policy (Ferrera, 2005).

Social coverage provided by family through intergenerational aid both in kind and through direct subsidies plays a key role in counterbalancing the lack of public action to ensure a certain standard of living. This is particularly true when looking at housing in certain Southern European countries. In the context of mortgage default, this has striking importance when related to the figure of the 'guarantor', usually a relative. A guarantor responds to default with everything that he or she earns or will earn, in addition to all their current assets. In some cases, banks can even go after the guarantor rather than the principal mortgage holder if certain clauses are included. In Spain, after the economic downturn, those guarantors liable for debts (i.e., mortgages) that were not directly theirs dramatically increased, creat- ing numerous situations of social alarm, as many of them were elderly, retired peo- ple. This may have contributed to a change of perspective in the Spanish tradition of helping offspring to purchase a home in the early stages of their housing career.

Household financial fragility: a homeowner's perspective

The potential resilience of households to the financial crisis definitely depends on tenure systems, but also on the possibilities for housing purchase offered by the financial system. As considered by Ampudia, van Vlokhoven, and Żochowsk

(2014), the financial fragility or vulnerability of households is determined by the risk of default, which in turn depends on:

(1) the amount of household debt;
(2) the uncertainty associated with income, primarily determined by the possibility of unemployment;
(3) the household's ability to meet its financial obligations.

The debt-to-income ratio of Spanish households was far above the average of the 18 Euro area countries during the 2002–2012 period. Starting with similar lev- els in 2002 (79.34 and 77.2 per cent for Spain and the euro area countries,

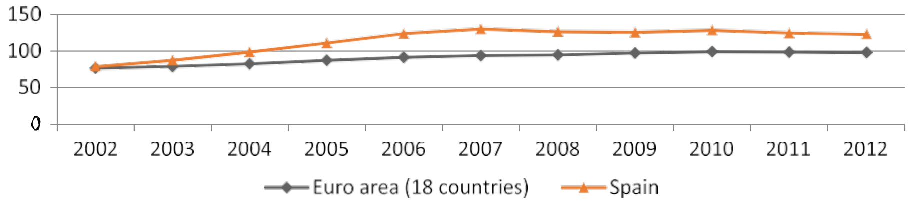

Figure 3. Gross household debt-to-income ratio.
Source: ECB.

respectively), it more than doubled for the Spanish case and increased by approximately 27 per cent for the euro area countries (see Figure 3).

In Spain, the median debt-to-income ratio for households located in the bottom 20 per cent in terms of income is 149.8 per cent. For comparison, in Germany this percentage is 29.5. This reveals that the high debt burden among Spanish households is taken on particularly by those in lower income segments (see Figure 4).

As we can see in Figure 5, among homeowners, 72.7 per cent have an income below 60 per cent of the median equivalised income; within this group, those with

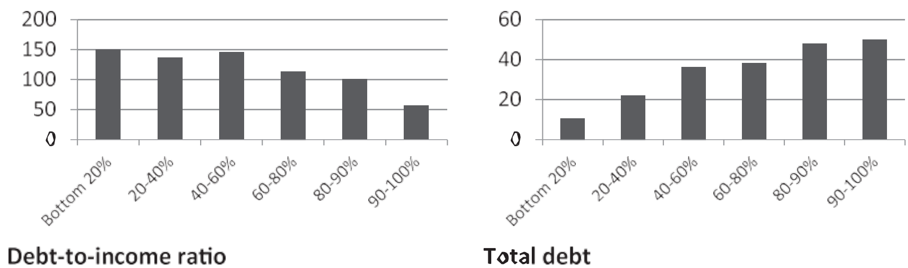

Figure 4. Debt-to-income ratio and total debt (conditional median), percentages and euros (thousands), Spain.

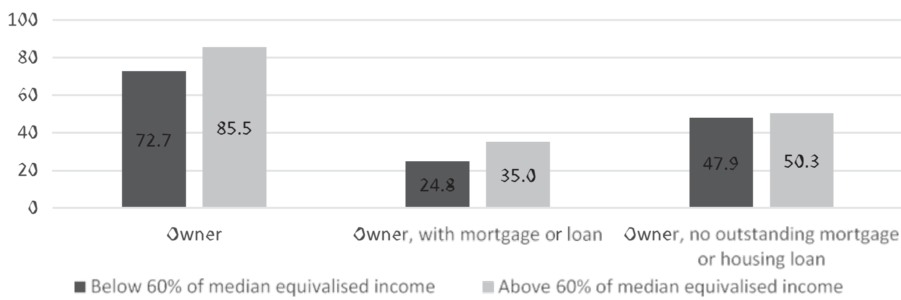

Figure 5. Distribution of homeowners (*), with or without mortgage burden and according to income, Spain, 2012.
Source: EU-SILC (2012). (*) Households.

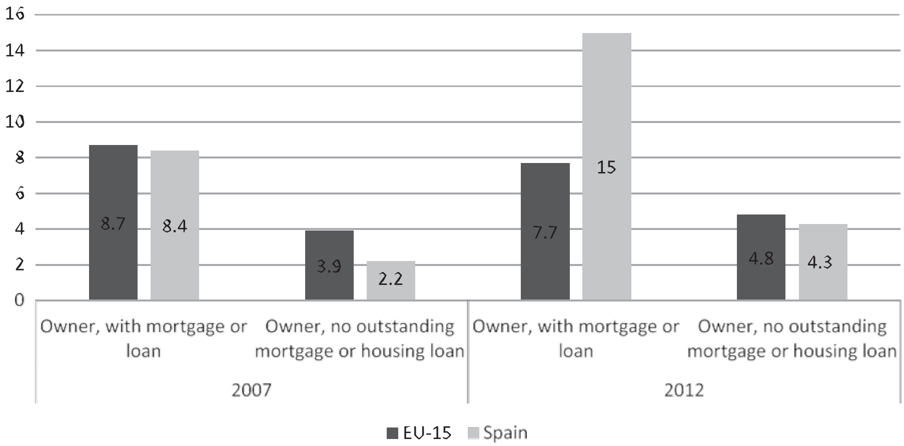

Figure 6. Housing cost overburden rate by homeowners (*), with or without a mortgage. Source: EU-SILC, 2012. (*) Households.

pending payments represented 24.8 per cent. Thus, more than one third of homeowners below the poverty line have a mortgage. This gives us an idea of the financial vulnerability of these households, whose income barely reaches the minimum wage in Spain.

The 'housing cost overburden rate' is the percentage of the population living in households where the total housing costs ('net' of housing allowances) represent more than 40 per cent of disposable income. As we can see in Figure 6, within the ownership sector, the percentage of owners with a mortgage or loan with an overburden due to housing costs was higher in both Spain and the euro area and in both years. The sharp increase in Spain in 2012 is remarkable and is a consequence of the generalised decrease in income after the crisis.

Figure 7 shows how the crisis has affected Spanish households according to income by examining their housing cost overburden rate. This rate doubled between 2007 and 2012 for households in the first income quintile, which is mainly due to the loss of income that has occurred in many Spanish households. It has also worsened in comparison to the average for the euro area. In 2007, the number of Spanish households with housing cost overburdens located in the first quintile of the lowest incomes was 26.4 per cent versus 30.1 per cent in the euro area, while in 2012 this increased considerably to 51.9 per cent in Spain, well above households in the euro area, which were then at 35.2 per cent.

In the last decade, the number of Spanish people living in mortgaged homes has multiplied two-fold and in an uncontrolled way. The majority of the new owners that accessed the market did so first because it was the predominant mode (with meagre options for choosing a different tenure type) and, second, because they

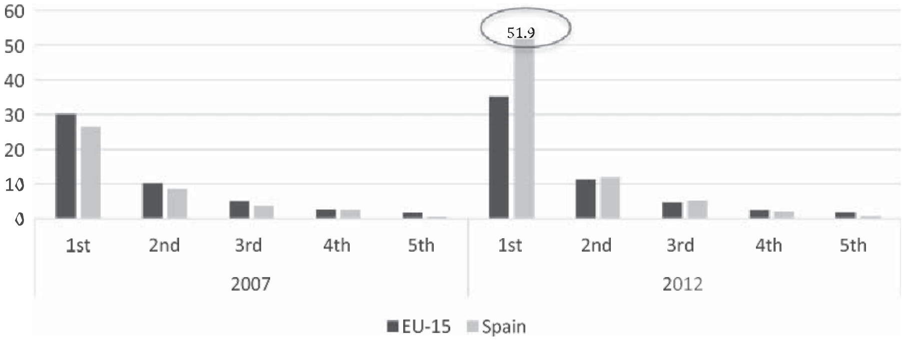

Figure 7. Housing cost overburden rate by income quintile, 2012 (*).
Source: EU-SILC (2012). (*) Households

were encouraged by a context of credit euphoria that promoted this. In other words, Spain is still a country of homeowners (the overall percentage has barely varied in the last decade), although ‘doubly mortgaged’, and with a high risk of social exclusion.

It can be said that the edges of ownership have become so alarmingly tense that they threaten to ‘burst their seams’. Especially when in the context of the crisis we find that Spanish legislation has no specific procedure for dealing with the insolvency of its citizens. Here we do not have what is commonly known as ‘second chances’ to deal with the over-indebtedness of private individuals (ECB, 2009; Cano Fuentes, Etxezarreta Etxarri, Dol, & Hoekstra, 2013; Heuer, 2013). This is something that does exist in other countries, where the issue has been tackled by establishing debt relief in cases of the excessive indebtedness of honest citizens. The debts are pardoned without the creditors’ consent, as long as the citizen in question fulfils certain requirements, in what is known as a second chance.

In Spain, private individuals cannot protect their assets in the case of insolvency, regardless of the origin of their debts, and willingness to pay does not constitute a way out of this economic dilemma (our Civil Code is based on the principle of the ‘universal asset liability’ of natural persons, according to which the debtor responds unconditionally to his or her debts with all current and even future assets). Mortgage foreclosure is the epitome of the problem, and even worsens the situation since to the initial debt we can also add an increase due to processing time, expenses and interest on the foreclosure, and surcharges caused by very high default interests. All of this can lead to unwanted situations, such as the underground economy.

Vulnerable homeowners at risk of default in Spain

Certainly, not all households with mortgages with pending payments run the same risk of defaulting. Several authors (Georgarakos, Lojschova, & Ward-Warmedinger, 2010;

Kelly, McCarthy, & McQuinn, 2012; McCarthy & McQuinn, 2011) have used the MDSR[4] to identify household economic distress and default potential. Households with a high MDSR tend to be more severely affected by a negative shock such as loss of employment. Certain authors (Dey, Djoudad, & Terajima, 2008; Djoudad, 2010; Faruqui, 2008) identify a critical Mortgage Debt Service-to-Income Ratio (MDSR) threshold of 35 per cent, above which there is a significant increase in household propensity to default on mortgage payments. In Spain, the Central Bank sets a 30 per cent limit.

We have considered this variable as it easily responds to the impact of the over-heated real estate market and the laxness of financial institutions in granting loans. When the ratio is high, households have less money to use on current spending and are more vulnerable to negative shocks, such as job loss. If we have a large number of households with a high MDSR, current consumption will be adversely affected. At the same time, a high mortgage debt burden may restrict household access to credit, affecting their ability to even out consumption over time. To get a better idea of the proportion of homes facing high mortgage burdens we consider all Span- ish households with mortgages and rank them according to MDSR per income dec- ile (see Table 2).

The bottom decile shows that 10 per cent of households in our sample with an average gross income of €47,607.18 have to face a mortgage repayment burden of between 0.5 and 9.03 per cent of their annual net income, which represents, on average, around €3,073.76. The fifth decile shows that 50 per cent of households have a

Table 2. Distribution of mortgage debt service-to-income ratio (MDSR) per income decile for Spanish households.

Decile	MDSR range per cent	Average income €	Average mortgage debt service	Number of households
Bottom	0.5–9.03	47,607.18	3073.76	328
2nd	9.04–12.24	42,436.14	4522.94	328
3rd	12.25–14.97	38,870.59	5291.89	328
4th	14.98–17.73	35,516.10	5786.63	329
5th	17.74–20.69	31,873.70	6105.85	329
6th	20.70–23.75	30,052.85	6683.01	327
7th	23.76–28.32	25,855.78	6675.94	329
8th	28.33–34.60	22,639.03	7074.40	328
9th	34.60–49.77	19,435.87	7832.74	328
Top	49.78C	11,469.09	8212.94	328
Total		30,576.26	6125.90	3282

Source: EU-SILC (2011) and compiled by authors.

Table 3. Date mortgages were taken out, before or after 2000.

	1st to 5th	6th	7th	8th	9th	Top	Total
Before 2000	41.2	31.5	26.6	22.2	22.6	26.0	33.5
From 2000 on	58.8	68.5	73.4	77.8	77.4	74.0	66.5

Source: EU-SILC (2011) and compiled by authors.

mortgage repayment that absorbs up to 20.69 per cent of their annual income. The top decile shows an MDSR of 49.78 per cent and over: this group of households has an average income of approximately 11 thousand euros and their Average Mort- gage Debt Service is approximately 8 thousand euros. Therefore, on average, 71 per cent of their income is spent on mortgage payments. This means that, in Spain, and according to the EU-SILC data, those households belonging to the ninth and top deciles have an excessive mortgage burden and are, therefore, susceptible to high levels of financial fragility.

In order to differentiate households according to the year they negotiated their mortgage, a dummy variable has been created corresponding to mortgages taken out before or after 2000 (see Table 3). Indeed, those households that took out their mortgages after 2000 are overrepresented in the upper deciles; that is, they have a higher risk of mortgage default than those who took out mortgages before 2000.

Table 4 shows non-payment of mortgage payments once, twice, or more. As expected, households in the ninth and top deciles present a considerably higher percentage of mortgage arrears twice or more than the rest of the households with lower mortgage burdens.

If we compare mortgage arrears to other arrears, we can conclude that mortgage payment default is the last option for Spanish households. As we can see, those in the 9th and top deciles show a higher percentage of arrears for other payments, 22 and 30 per cent, respectively. Clearly, those with a high MDSR are in a critical situation when it comes to fulfilling other financial commitments besides their mortgage.

Table 4. Mortgage arrears/other arrears.

	1st to 5th	6th	7th	8th	9th	Top	Total
Yes, only once	1.2/1.7	1.2/3.0	2.1/4.4	2.8/4.9	2.4/2.8	2.4/2.5	1.7/2.6
Yes, twice or more	2.7/5.2	4.0/6.0	4.3/11.0	5.2/8.6	9.8/22.2	14.7/30.4	5.2/9.8
No	96.1/93.1	94.8/91.0	93.6/84.6	92.0/86.4	87.8/75.0	82.9/67.1	93.2/87.7

Source: EU-SILC (2011) and compiled by authors.

Addressing resilience at the edges of homeownership in Spain

Housing intervention in Spain has not followed the guidelines, priorities, or instruments set by other European countries. Its uniqueness has had diverse impacts on today's housing market, creating a different scenario when compared to the rest of Europe, particularly in relation to tenure systems (Scanlon & Whitehead, 2004). In addition to the so-called 'culture of homeownership' (Jurado Guerrero, 2001; Hoekstra & Vakili-Zad, 2011; Palomera, 2014), housing policies have contributed extraordinarily to the current dominance of homeownership in Spain and the neglect of other forms of social housing, particularly public rented housing (Pareja-Eastaway & San Martin, 2002). Since the crisis, there is a legal vacuum in Spain that violates the EU's Charter of Fundamental Rights (such as the right to housing, consumer protection, and the right to dignity), expressed in a considerable number of reports and studies. Indebted Spanish households need a way to restructure their debt, unblock consumption, and prevent social exclusion.

The emergency in Spain since the crisis requires, on the one hand, measures to help alleviate the damage caused for families located at the edges that have not withstood the onslaught of the crisis. On the other hand, measures with medium- and long-term impacts are needed to improve the existing tenure imbalance; for instance, new models of housing provision based on more appropriate and flexible tools that are adaptable to unexpected shocks.

Three types of measures have been identified: first, those aimed at diminishing the vulnerability of people that are already highly indebted; second, measures to counterbalance the traditional bias in the Spanish tenure system; and, finally, measures that represent radical innovation and new experiments in tenure options.

Tackling the status quo

Increased protection for mortgage debtors

After the crisis, new regulations were needed in order to improve consumer protection. Since 2012, the government has put in motion a series of measures aimed at protecting mortgage debtors (paying special attention to those in particularly vulnerable situations), but with a very limited impact, especially for homebuyers that were affected by mortgage defaults and foreclosures. As an example of civil society awareness around the critical situation of many families in Spain suffering the burden of unpaid mortgages, in 2011, the Spanish Parliament accepted the Popular Legislative Initiative (*Inicitativa Legislativa Popular* — ILP). This is a proposal to regulate *datio in solutum*, to stop evictions, and to promote social rental. The ILP was promoted and supported by the PAH, two of the most relevant trade unions (CCOO and UGT), the Confederation of Neighbourhood Associations of Catalonia (CONFAVC), the Third Social Sector Platform in Catalonia, and the DESC (Economic, Social, and Cultural Rights) Observatory.

As mentioned earlier, insolvency due to unpaid mortgage loans for home purchases has risen sharply in Spain since the beginning of the crisis. This is explained by the decline in employment and the excessive increase in expenses needed for accessing and paying for housing in relation to the overall family budget in the period 2000–2007. The legal foreclosure procedure in effect until 2013 in Spain was inefficient and inequitable. As a first attempt to remedy this and in an emer- gency situation, banks were urged to voluntarily accept *datio in solutum* according to the definition of the 2012 Good Practices Code under Royal Decree 6/2012, of 9 March, on urgent measures to protect mortgage debtors with no source of income. In July 2015, almost all Spanish financial institutions had signed this Code. The cur- rent Law 1/2013 on measures to strengthen the protection of mortgage debtors (BOE – official gazette – 15/05/2013) included the most significant changes from 2011 and 2012, but progress is still insufficient.

Law 1/2013, inter alia, suspended evictions of families particularly at risk of exclusion for two years and modified existing mortgage regulations. These modifications include limiting the default interest to three times the legal interest rate in the case of primary residences, and reducing the maximum term of mortgage loans for home purchases to 30 years.

As for Spanish foreclosure proceedings, Article 1911 of the Civil Code provides that the creditor may seize all of the debtor's assets in order to recover the loan. The Civil Procedure Law (Law 1/2010) provides that, once default has occurred, the asset is auctioned and if this is unsuccessful, the bank keeps the house paying only 70 per cent of its appraisal value. Credit institutions may claim from the debtor the difference between the amount of the debt (increased by default interests) and the 70 per cent value for which the property had come to auction, along with other costs. In the process, the lender can garnish the wages of the debtor, who is con- ferred an inalienable right equivalent to 150 per cent of the minimum wage (*Salario Mínimo Interprofesional* – SMI) (961 euros).

New ways of financing house purchases

In Spain, the decrease in housing prices has meant that, outside large cities and the most exclusive neighbourhoods, certain dwellings (60–80 m^2, three bedrooms, and second hand) can cost around 100,000 euros. The feasibility of buying without a mortgage depends on prior savings and the previous sale of another apartment. Thus, down payments are gaining in importance. As mentioned earlier, only 37 per cent of purchases were financed with mortgages in 2012.

Some developers offer to directly fund the purchase of a house for buyers with a lack of liquidity and given the difficulties in obtaining loans from banks. This is a mechanism that works as leverage to attract new buyers, negotiating the amount of the payments with them. That means profits for these companies, many of which are eager for liquidity and in a tight financial situation, together with some savings for future owners, such as the expenses that taking out a mortgage entails. The problem, some experts emphasise, is that these kinds of variable financing plans may include additional costs that need to be assessed and compared with the interest rate the bank would charge if you opted for a home equity loan.

Another formula that has been identified for financing some home purchases is to take out a consumer loan: the costs are higher than a mortgage, but they involve less paperwork and other expenses, such as tax or legal costs.

Promoting alternatives to homeownership

Creation of a permanent stock of social housing

The government has promoted the creation of a fund for a permanent stock of social housing aimed at providing accommodation for people evicted from their residences, who are entitled to pay a reduced rent for two years. This fund will consist of social housing provided by banks and will be offered to borrowers evicted from their homes as a result of procedures carried out at the request of the bank in ques- tion. The first social housing fund was established in January 2013 providing homes for 780 households. When considered in relation to the 90,000 evictions that may have taken place, the scope of the fund is very limited. According to a European Central Bank opinion on the law in question: 'foreclosure should be considered as a last resort… The initiative of the social housing fund should be part of a comprehensive strategy and integrate management difficulties related to mortgages.'

Considering the European level, Directive 2014/17/EU[5] will definitely affect Spain's financial structure, behaviour, and scope.

Promoting the rented market

After the crisis and considering the negative effects of the lack of a strong rented sector, the new Housing Plan 2013–2016 identifies facilitating housing access to target groups, supporting the rented sector, and promoting rehabilitation as its main priorities. Private rented markets have been playing a significant role in recent decades in Spain, a role which has been reinforced since the crisis. In many cases, the rented market is considered as the last chance for families who cannot buy. Given the enormous potential that the rented market shows as a housing provider for vulnerable groups, the boundary between what constitutes private rented housing and social rented housing is increasingly blurred.

The risks of assuming this responsibility have negatively affected the rental sector since, in addition to covering a series of demands that homeownership cannot, by definition, meet, it has been providing housing for those who should benefit directly from social housing. With regard to attempts by political leaders to develop a real stock of social rented housing, two major drawbacks are detected: first, like in the rest of Europe, its high cost, and, second, the need for experts in the management of the rented housing stock. Cost and management difficulties (maintenance of buildings and houses, rental management fees, resolution of neighbourhood conflicts, etc.) also prevent the authorities from effectively promoting the rented sector.

Innovations in tenure

The different levels of government in Spain have provided certain alternatives to the (limited) existing tenure options; that is, homeownership and rental. These reactions should be understood in light of the extensive and long-term lack of affordable and suitable housing in Spain (Pareja-Eastaway & Sánchez-Martínez, 2011). For many decades, public administrations have dealt with the need to provide alternative tenure options through, for example, lease-purchase contracts (*arrendamiento con opción a compra*), the right to build (*derecho de superfície*), usufruct (*usufructo*), and housing cooperatives with use-assignment schemes (*cooperativas de vivienda en régimen de cesión de uso*) (Tenlaw Report, 2014).

Innovations in homeownership are mostly related to diverse forms of intermediate tenures (Nasarre & Simón, 2013). Temporary ownership and shared ownership are, among others, examples of these new tenure alternatives. In the first case, a new owner purchases a property by a certain time and for a determined number of years (from 6 to 99 years), which means significant stability in the ownership of the property and considerably increases accessibility. The second case involves the transfer of the property rights of part of the house, with the seller retaining the rest and with the possibility for the buyer to progressively acquire the complete property. The seller may or may not be a public institution, which leads to the development of a market in shared ownership that is both public and private. Catalonia has recently passed a law where shared and temporary ownership of housing have been included in the Civil Code (*Llei 19/2015, del 29 de juliol, d'incorporació de la propietat temporal i de la propietat compartida al llibre cinquè del Codi Civil de Catalunya* — Law 19/2015 of 29 July on inclusion of temporary and shared ownership in the Fifth Book of the Catalan Civil Code)

One example of innovation in housing provision in Spain is related to the promotion of housing cooperatives as non-profit associations that offer proposals and applicable solutions for making our society fairer and more respectful towards people and the environment through non-speculative urban planning and housing access. One new approach to housing access is based on Use Cooperative Models (*Modelos de Cooperativas de Uso* — MCU), through which ownership of the dwellings remains in the hands of the cooperative, where members participate, and where they enjoy the right to use of the dwelling for an indefinite period of time through an affordable rent. Specific examples include Sostre Cívic and La Borda, both in Catalonia.

Improving the future of the Spanish housing system: learning from the past

Spain's housing system today has been determined by policies that promote property ownership as a form of protected tenure. This stems from an explicit willingness to use housing policy as an instrument of economic policy dedicated to strengthening the real estate sector, which has served as a driving force of the Spanish economy for decades.

The consequences of this type of approach could already be detected before the arrival of the global economic and financial crisis; both in relation to the tenure system, which is completely distorted in favour of ownership, with a narrow and insufficient rented sector and a social housing stock that is among the lowest in Europe, and in relation to the high levels of family indebtedness, the extreme volatility of the markets, and accessibility problems for the most vulnerable households. These aspects became more visible throughout the duration of the real estate bubble (2000‒2007) since despite the high increase in housing prices, many households continued to tend towards owner-occupancy at the risk of subjecting their family budgets to high levels of indebtedness. Furthermore, the easy credit offered by the banks did not provide any type of restrictions, so that some families ended up spending beyond the reasonable limit of 35 per cent of their disposable income on housing expenses.

Here the public authorities find themselves facing a serious dichotomy: on the one hand, they see a buoyant real estate sector, creating employment and guaranteeing positive GDP growth rates; on the other hand, there is a growing number of households accessing ownership (which is subsidised by housing policy that clearly favours this form of tenure) and dedicating a large part of their income in the long-term to paying off their mortgages. The edges of ownership are filled with a demand segment that probably should not have accessed this type of tenure. Public action passes at this point to non-action and the adoption of measures that continue to encourage ownership despite the high risk this means for a large number of families.

Since 2008, the Spanish housing system has been subjected to severe exogenous shocks that have disrupted the social, economic, and financial stability of many homes. The negative consequences of decades of housing policy geared toward ownership surface in all their splendour: not only are many homes 'expelled' from ownership but, moreover, in the Spanish housing system there is no alternative that offers accommodation guarantees for all types of demand.

As we have seen in this paper, the financial vulnerability of Spanish families that accessed property in extreme circumstances has been accentuated to such an extent that continuing to meet payments on housing has become one of the most pressing problems. This has also affected the banks, which have turned overnight into one of the most significant owners of unoccupied housing.

In this context, housing policy has established some short-term measures to try to alleviate the most serious effects of the housing crisis, enacting, for example, laws for the protection of families with mortgages. At the same time, housing policy attention today shifts from stimulating ownership to incentives for those accessing the rented market or rehabilitating their homes. Facing the seriousness of the situation, the idea of generating a permanent stock of social housing has been taken up again, although the results have yet to be confirmed.

Beyond the temporary short-term measures, it is an ideal time for the reconsideration of housing policy in Spain and for sketching the roadmap for the coming decades, in light of past mistakes. The serious social consequences the crisis has caused in homes that have dedicated a large part of their income to paying for housing are an example of the lessons to be taken from the application of certain previous housing policies. It is indisputable that the Spanish housing system, a system focused on ownership and spurred by successive housing policies that have stimulated this tenure type, has failed to be resilient in the context of the crisis. New housing policy should avoid ownership being the only instrument that favours housing access for citizens, since this approach confuses the stimulation of the real estate sector with housing provision. New housing policy requires greater diversification in terms of tenures that facilitate access to housing, specifically, decisive support for the rental sector. New housing policy should, ultimately, reconsider the model of housing provision, partaking in serious reflection on what should continue to be considered as social housing in Spain. More research and studies are surely required, but, above all, what is needed is the political will to change the current obsolete housing policy model.

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Notes

1. The figures contained in the judicial statistics refer to all types of real estate assets, not only household mortgages.
2. The CEBR defines a mortgage holder as being in negative equity when the value of their outstanding loan is greater than the value of the house upon which the loan is secured.
3. The average LTV for a Spanish mortgage holder in negative equity at the end of 2013 was 113 per cent.
4. $MDSR = \frac{\text{Morgage Debt Service (principal and interest)}}{\text{Household income}}$
5. Directive of the European Parliament and of the Council of 4 February 2014 on credit agreements for consumers relating to residential immovable property and amending Directives 2008/48/EC and 2013/36/EU and (EU) Regulation No 1093/2010.

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