
Repossession

Advice for
homeowners



WORRIED ABOUT YOUR MORTGAGE?

If you are having difficulty meeting your mortgage repayments or are worried it may become a problem in the future, here is some information which may help you.

- **What you should do if you are having trouble paying your mortgage**
- **What you should NOT do**
- **Sources of debt advice and assistance**

What you should do if you are having trouble paying your mortgage

If you are in this situation there are three steps you should follow:

1. Tell your lender as soon as possible: your lender will be sympathetic and will provide as much assistance as possible.
2. Get advice: there are organisations which offer free and independent financial advice.
3. Check the help available to you: your repayments may be covered by an insurance policy or you may be eligible for government benefits or schemes which could help you to stay in your home.

The **Financial Services Authority** has also published some helpful guidance for borrowers in difficulty: *What to do if you can't pay your mortgage* – http://www.moneymadeclear.fsa.gov.uk/pdfs/mortgage_cantpay.pdf

1. Your first step: tell your lender

If you are having trouble paying your mortgage, or you think it will be a problem in the near future, you should tell your lender immediately. Your lender will be fair and work with you to find a repayment solution.

Some lenders have telephone help-lines or debt counselling facilities to assist making contact. The sooner you contact your lender the better, so that action can be taken to deal with the difficulty.

If you can't afford your full mortgage repayments you should talk to your lender and still pay what you can afford. This shows your lender you are committed to solving the problem and makes it easier for them to help you. There are several options that your lender may be able to consider including:

- Reducing your monthly payments by lengthening the term of the loan.
- Moving a repayment mortgage onto an interest-only basis, provided you understand you will not be paying anything off the actual mortgage.

- Adding arrears to the outstanding mortgage amount rather than seeking immediate payment.
- Accepting reduced payments for a short period of time until you are able to resume full payments and repay any arrears that build up as a result.
- Changing the way you make your payments, or the date you make them.

The earlier you make contact, the more options there are available to resolve the problem. However, these are short-term solutions and in the long-term a repayment problem will have to be resolved. Your lender will wish to stay in regular contact with you to keep up to date with any changes in your circumstances.

Each lender has a policy setting out how they will treat borrowers when their mortgage is in arrears. Your lender should provide you with information explaining how you can expect to be treated by them.

2. Your second step: get advice

There are a number of organisations which offer free and independent financial advice. Their counsellors can help you assess your financial problems and advise the best course of action to solve them.

If you are worried about approaching your lender direct – or if you have multiple debts – these debt advice agencies can help you. Lenders will work with these agencies if they are acting on your behalf.

Debt advisers can also tell you about the government schemes to help homeowners and help you apply for them.

Ensure that you prioritise your debts and rank them by importance, primarily food, utilities and shelter. It is also important to preserve your good credit rating in order to be able to rent or buy a home, buy financial products, or even for employment.

3. Your third step: check the options and help available to you

If you become unemployed, have an accident, or are too sick to be able to work, you should check whether you have a mortgage payment protection policy – <http://www.cml.org.uk/cml/consumers/guides/mppi>

This type of insurance would usually have been taken out at the same time as your mortgage and, if you have an eligible claim, will cover your mortgage repayments up to a period of 12 months or sometimes more.

The state benefits and schemes to help homeowners in difficulty have recently been strengthened. It is worthwhile seeking advice on whether you are eligible for any of the schemes or benefits listed below.

Government schemes to help with mortgage arrears

Income Support for Mortgage Interest

Income Support for Mortgage Interest (ISMI) helps homeowners on benefits with their mortgage interest payments provided that the mortgage was used to purchase the home or for work to maintain the property's fitness for occupation.

It is available to people claiming:

- *Income support;*
- *Income based job seeker's allowance;*
- *Income-related employment allowance; or*
- *Pension credit.*

There is an upper limit of £200,000 on the size of mortgage which ISMI will cover. Restrictions can be imposed if your housing costs are considered to be excessive. You cannot claim if you work 16 hours or more per week, or your partner works 24 hours or more, or if you have savings of over £16,000.

In addition to interest payments, ISMI may also cover ground rent or certain service charges, but it will not cover the capital part of your mortgage payments or the premiums on an endowment policy.

The timing of the assistance will depend on when you took out your mortgage, but usually you will start receiving assistance 13 weeks after the start of a claim. ISMI is normally paid direct to your mortgage lender and credited to your mortgage account every four weeks in arrears.

The upper limit on the rate of interest paid is 6.08% and there is a two year time limit in which you can claim IS for mortgage interest.

For information and advice on ISMI, or to make a claim, visit the **Jobcentre Plus** website – www.jobcentreplus.gov.uk – or phone 0800 055 6688.

Home-owner support scheme

The government has announced a scheme to allow borrowers who are facing possession because of a large but temporary reduction in their income to defer part of their interest payments for up to two years. The deferred payments would then be added on to the outstanding mortgage balance. This scheme is not up and running yet but further information is available on the Directgov website – www.direct.gov.uk/en/N11/Newsroom/DG_173274

Mortgage Rescue

Mortgage Rescue schemes are operated independently in England, Scotland, and Wales.

To find out if you are eligible for mortgage rescue or another form of assistance you should contact your local authority or Citizens Advice Bureau.

Mortgage Rescue in England

Mortgage rescue schemes in England are aimed at vulnerable households facing possession (families with children, the elderly, those with a disability or pregnant women). There are two forms:

- Shared Equity – the housing association buys a stake of the equity in your property which reduces your monthly mortgage payments. You still remain the outright owner of the property; and
- Mortgage to Rent – the housing association pays off your mortgage debt and you then become a tenant of the housing association, paying a rent you can afford.

Information on mortgage rescue schemes in England can be found at www.direct.gov.uk/en/HomeAndCommunity

Mortgage Rescue in Scotland

If you are facing possession in Scotland you may be eligible for the mortgage to rent scheme – where the housing association buys your home and you to continue to live there as a tenant.

To apply, you must first get advice about your financial situation from a Citizens Advice Bureau, a debt advice service or other advice agency, a solicitor, or your local authority.

Information on the mortgage to rent scheme can be found at www.scotland.gov.uk/Publications/2008/06/26091514/1

The Scottish Government recently announced an expansion of the Mortgage to Rent Scheme and a new Shared Equity Scheme which will start on 16 March 2009.

Mortgage Rescue in Wales

The mortgage rescue scheme in Wales take two forms:

- Shared Equity – the housing association buys a stake of the equity in your property which reduces your monthly mortgage payments. You still remain the outright owner of the property; and
- Mortgage to Rent – the housing association pays off your mortgage debt and you then become a tenant of the housing association, paying a rent you can afford.

Priority is given to families and people who live in specially adapted housing.

Information can be found on the Welsh Assembly website – www.wales.gov.uk. To apply contact your local authority or the Welsh Assembly Government Housing Directorate Tel: 01685 729156 or 01685 729157, email: shg@wales.gsi.gov.uk.

Other benefits & tax credits

Working Tax Credit and Child Tax Credit Working Tax Credit and Child Tax Credit are administered by Her Majesty's Revenue and Customs (HMRC). Please see the HMRC website for further information or call 0845 300 3900.

The Council Tax Benefit is available to help people on a low income with their council tax bills. For further details visit the Jobcentre Plus website – www.jobcentreplus.gov.uk/JCP/index.html – or your local authority.

What you should NOT do

You should never take out a loan at a higher rate of interest to pay your regular mortgage payments; this will only make the problem worse. Don't ignore letters or telephone calls from your lender; if you are not sure what they mean ask your lender or a debt adviser. Don't stop paying altogether if you can't afford the full repayment: talk to your lender and pay what you can each month.

You may be thinking about abandoning your property or sending the keys to your lender. You should not do this without talking to your lender first and understanding the consequences. You should be aware that:

- You will still owe any outstanding debt/mortgage, including the interest building up on the loan, until the property is sold.
- You will have to pay for the costs of selling the property and will still owe any shortfall between the sale price of the property and the outstanding debt.
- Your lender may pursue you, through the courts, to recover the total amount owing.
- You may be recorded on a register of people who have had their properties repossessed and may find it more difficult to obtain loan finance in future.

Sale and rent-back schemes: exercise caution

Some companies offer to help you if you get into financial difficulties with your mortgage payments by buying your home and then renting it back to you for a fixed period of time (six months or more). These are sometimes called 'mortgage rescue', 'rent-back' or 'sell-to-let' schemes.

These schemes are not regulated by the **Financial Services Authority** so you may not have access to the complaints and compensation procedures if things go wrong. They are not the same as 'home reversion' schemes which are for people who have paid off their mortgage and want to sell part or their entire home for cash and retain the right to live in it for a nominal rent. They should also not be confused with the government mortgage rescue schemes.

Selling your home in this way may allow you to clear your mortgage debts and stay in your home. However, if you opt for such a scheme you will no longer own your home and could still be evicted if you fall behind with your new rental payments or be given a Section 21 notice, where the landlord will automatically be given possession as long as the landlord has followed the correct procedure. In addition most of these firms will pay you less than the market value of your property, so think carefully and seek advice before entering into such a scheme and make sure you understand the consequences.

Beware of predatory lending schemes

Most mortgage lenders are trustworthy and provide a valuable service by allowing families to own a home without saving enough money to buy it outright. But dishonest and "predatory" lenders do exist and engage in lending practices that increase the chances that a borrower will lose a home to repossession. Beware especially of those who make high risk second mortgages. Other abusive practices include:

- Making a mortgage loan to an individual who does not have the income to repay it.
- Charging excessive interest, points and fees.
- Repeatedly refinancing a loan without providing any real value to the borrower.

Borrowers facing unemployment and/or repossession are often targets of predatory lenders because they are desperate to find any "solution".

Please see the report called *Payday for Loan Sharks* to find more information about predatory lending and how to avoid it – www.shapps.com/reports

Sources of debt advice and assistance

Organisations that can help you with your money problems and delay repossession

The Financial Services Authority

The industry regulator has a series of practical guides on managing money and financial products on their website including this guide on: 'what to do if you can't pay your mortgage'. – www.moneymadeclear.fsa.gov.uk/pdfs/mortgage_cantpay.pdf

Citizens' Advice Bureau

Can help with a range of problems including money and housing. Find the contact details for your local bureau on the Adviceguide website – www.adviceguide.org.uk

National Debtline

Charity offering free, confidential advice including a comprehensive website section on mortgage arrears – www.nationaldebtline.co.uk

Shelter

Housing charity offering a comprehensive source of advice and information in housing, including avoiding repossession – see their website for further information – www.shelter.org.uk

Consumer Credit Counselling Service (CCCS)

Offers assistance in resolving multiple debts – see their website for further information – www.cccs.co.uk

Payplan

Free confidential advice on debt problems – see the Payplan website – www.payplan.com

Credit Action

Credit Action is the national money education charity and provides a range of free materials, tools and resources to help you manage your money well and to understand your options if you are struggling with debt, housing or redundancy issues. –

www.creditaction.org.uk

ClearStart Consumer Debt Service

A debt counselling and settlement authority – www.clearstart.org

Organisations that can help you with alternative housing

Many local authorities have comprehensive housing advice centres which give necessary information about what housing may be available. Shelter and CAB can also offer advice and assistance on housing.

Estate Agents

In the event that remaining in your home is no longer an option, you will need to find an estate agent to help you sell your home. The following services can help you find an estate agent:

- Find a Property – www.findaproperty.com
- Prime Location – www.primelocation.com
- UK Estate Online – www.ukestate.com