

What to do when you can't meet your mortgage payments



This information is provided by the Financial Services Authority (FSA) – the independent watchdog set up by government to regulate financial services and protect your rights. The FSA regulates most mortgages taken out after 31 October 2004 and firms involved with mortgage sales from this date. This leaflet provides useful guidance on what to do if you are in arrears, regardless of when you took out your mortgage.

What should you do?

■ **Do something now – the problem won't go away**

The sooner you contact your mortgage lender to discuss your difficulties, the better. They need to know if there are specific reasons why you cannot make the payments.

■ **Contact your mortgage lender for help**

All mortgage firms regulated by the FSA have to take into account their customers' circumstances and treat them fairly. If you are in arrears, your lender will have a set procedure for dealing with your case. Contact them to find out if they can help you.

■ **Get advice**

It may be a good idea to get some free and independent advice. Various advice agencies specialise in this area and can help you plan how to solve your problem. See *Useful contacts* on page 4.

■ **Do a personal budget** (advice agencies may be able to help you with this – see *Useful contacts* on page 4). This is a list of your income and spending and will help you see where your money is going and plan your future spending. Use this plan so that you pay all your essential spending commitments such as the mortgage, utility bills (gas, electric, water), insurances, council tax and housekeeping first.

■ **Pay what you can**

Even if you cannot pay the full monthly payments, continue to pay what you can afford. Your mortgage lender is more likely to be sympathetic if you can show you are willing to make an effort to pay something – this may significantly increase your chances of keeping your home.

■ **Consider changing the way you repay your mortgage**

If you have a repayment mortgage and your difficulties are short term, you could ask your mortgage lender to accept interest-only payments for a time. This means you will not be paying anything off the capital amount. You will then need to catch up on your payments towards the capital at a later date.

■ **Tell your mortgage lender what you are doing**

Your mortgage lender will be better able to respond to your difficulties if they understand the action you are taking.

Things to avoid

■ **Loans to repay debts**

Think long and hard before taking out a loan to repay your debts. Such loans are often very expensive and secured on your home – putting it at greater risk if you can't keep up the payments. If you are thinking about taking out a further loan, get advice from one of the agencies mentioned on page 4.



■ **Handing back the keys**

If you can't afford the mortgage and want to hand back the keys to the mortgage lender, think carefully. You are still liable for the mortgage until the property is sold. Often, empty properties sell for less than their market value. This could mean that your mortgage is not repaid in full and the lender may still pursue you for any outstanding balance – they can do this for up to six years after the sale (five years in Scotland). Your name will be on the repossession register – making it harder to get a mortgage in the future. Seek advice first.

Is any financial help available?

■ **Insurance**

If you can't meet your mortgage payments because of a loss of income or your income has fallen (perhaps because you're on long-term sick leave), you should check whether you have any mortgage payment protection insurance. If you do, check whether your policy covers your specific circumstances and make a claim straightaway. If your claim is refused, and you don't agree with the refusal, you may be able to take your case to the Financial Ombudsman Service – see *Useful contacts* on page 4. The Financial Ombudsman Service provides consumers with a free, independent service for resolving disputes with financial firms.

■ **Benefits**

There may be benefits you could claim to increase your income – contact your local Jobcentre Plus office (details in the phone book) or an advice agency for information.

■ If you claim Income Support or Job Seeker's Allowance, the local Jobcentre Plus office will usually provide some help with your mortgage payments. How much you get and when it starts will depend on when you took out your mortgage and how long you have been receiving benefits. The local Jobcentre Plus office can help only with interest payments and these will be paid at a rate set by the government.

■ If you, or your partner are aged 60 or over you may be entitled to Pension Credit. In

certain cases you could get an extra amount of Pension Credit to cover mortgage interest payments. To find out more see the Pension Service's website at www.thepensionservice.gov.uk or get a copy of the leaflet PC1L Pension Credit from your Post Office.

Should you use a fee-charging debt management company?

You may see adverts for companies that will handle your debts for a fee. Be wary of claims that your debts will disappear – and remember that because you have to pay a fee, you are likely to end up paying off your debt for longer. Rather than paying a fee you could use one of the many organisations that will give free advice. See the list on page 4.

What can you do to pay off your mortgage arrears?

You could think about any of the following:

■ **Start repaying arrears as soon as you can**

It's important to do this because arrears can often lead to extra charges that will increase the total amount you owe. Although paying off your arrears quickly could mean you have less spending money for a while, it is cheaper in the long run.

■ **Make extra payments**

You can arrange to pay your arrears by paying more each month than the standard monthly mortgage payment. But make sure you can realistically afford the extra. Even if your mortgage lender is unhappy with what you offer, pay the extra anyway. Explain why you can only afford this amount – there may be circumstances such as illness or a drop in income that your mortgage lender is not aware of.

■ **Add the arrears to your mortgage**

You could ask your mortgage lender to consider 'capitalising' your arrears. This means adding them to your total mortgage balance, spreading the arrears over the remaining period of your mortgage.

Your monthly payment will then increase to take account of this. Your mortgage lender is unlikely

to agree to this if you have previously failed to stick to revised repayment arrangements, or if your house is worth less than the balance of your mortgage including the arrears.

■ **Extend your mortgage period**

Most mortgages are normally repayable over 25 years. If you have a repayment mortgage and have been paying it for several years, you could ask your mortgage lender to extend the term back to 25 years again. This would reduce your monthly payments BUT you would be making them for longer – perhaps into your retirement. This is more difficult to arrange with interest-only mortgages that are connected to an endowment policy, PEP or ISA.

■ **Ask to delay paying off your arrears**

If you can now manage to meet your monthly payments, but can't afford to pay anything towards the arrears, you could ask your mortgage lender not to demand payment towards your arrears for a period of time.

■ **Changes you can consider if you have an interest-only mortgage**

■ If you have an interest-only mortgage linked (for example) to an endowment policy and can't afford both the mortgage and the endowment policy payments, you could ask the endowment company whether you can have a payment holiday. You will have to arrange with them how to make up the backlog of payments once you restart your policy.

■ If you have an endowment policy that has been running for several years, it may have built up a reasonable sum of money that you could use to pay off your arrears. This would mean cashing in the policy to take the money, or selling the policy. If you did this, then you would have to change to a repayment mortgage to make sure that the money you borrowed would be repaid. Before you do this, you will need to speak to both your mortgage lender and the endowment company. Cashing in an endowment policy

early may result in the value of your policy being considerably reduced. You should think carefully before deciding to do this and ask your endowment provider for a cash-in value.

As a last resort, you could –

■ **Sell your home**

If you can't afford your mortgage payments and you think this situation won't change in the long term, you may wish to think about selling your home. However, before you do this, think carefully about where you will live. Your local council may say you have made yourself intentionally homeless and will not help you find somewhere to live.

If you live in Scotland, you may be eligible for the national Mortgage to Rent Scheme. The scheme may be able to arrange for you to sell your home to a social landlord and remain there as a tenant. Advice agencies can give you more information about this scheme – see *Useful contacts* on page 4.

What if your lender takes you to court?

If you have taken all the possible steps mentioned above to get help, hopefully it won't come to this. But if it does:

- don't ignore the paperwork you are sent – seek advice from any of the agencies mentioned on page 4;
- just because a lender starts court proceedings it doesn't mean you will automatically lose your home. Make sure you get advice and make sure you attend the court hearing;
- if you do have to go to court, a money adviser from one of the agencies on page 4 can help you prepare your case and may be able to represent you.

Complaints

If you feel that your mortgage lender or insurance company is not dealing with your case fairly, ask them for a copy of their internal complaints procedure.

You can often get matters sorted out quickly and easily if you do this. But if you're not happy with the answers, you can take the matter to the Financial Ombudsman Service – see *Useful contacts* below. See also the **FSA guide to making a complaint about financial services** for useful tips – available from the FSA Consumer website at www.fsa.gov.uk/consumer or the FSA Consumer Helpline on 0845 606 1234.

Useful contacts

Citizens Advice Bureaux (CAB)

Website: www.citizensadvice.org.uk

Citizens Advice Scotland (CAS)

Website: www.cas.org.uk

Northern Ireland Association of Citizens Advice Bureaux

Website: www.citizensadvice.co.uk

Look in the phone book for your local bureau, or on their website

National Debtline

Provides a free, confidential and independent phone service

Tel: 0808 808 4000 – freephone

Website: www.nationaldebtline.co.uk

Business Debtline

Free, confidential and independent advice for self-employed people and small businesses

Tel: 0800 197 6026 – freephone

Website: www.birminghamsettlement.org.uk

Advice UK

All members provide free and confidential advice, but not all provide money advice. To find your nearest centre

Tel: 020 7407 4070

Money Advice Scotland

Tel: 0141 572 0237

Website: www.moneyadvicescotland.org.uk

Consumer Credit Counselling Service (CCCS)

CCCS offers a structured programme on how to manage your money

Tel: 0800 138 1111 – freephone

The Community Legal Service (CLS)

Aims to make it easier for the public to get legal help and advice – look on their website for details of agencies in your area

Website: www.clsdirect.org.uk

Credit Action

Provides information and guidance for people with debt or money worries

Tel: 0800 591 084 – freephone

Website: www.creditaction.com

Jobcentre Plus Office

Your local office can advise you if you are eligible for any benefits.

Look in your phone book for details

Financial Ombudsman Service

If you are not satisfied with the way your mortgage or insurance company has dealt with your complaint

Tel: 0845 080 1800. Call rates may vary

Website: www.financial-ombudsman.org.uk

Local Trading Standards Department

Also known as the Consumer Protection Department

Look in the phone book for your local office

Financial Services Authority (FSA)

Consumer Website: www.fsa.gov.uk/consumer

Consumer Helpline: 0845 606 1234. Call rates may vary

Minicom/textphone: 08457 300 104

(available 8.00am - 6.00pm Monday - Friday: call rates may vary)

March 2005