

Problems paying your mortgage



The Money Advice Service is here to help you manage your money better. We provide clear, unbiased advice to help you make informed choices.

We try to ensure that the information and advice in this guide is correct at time of print. For up-to-date information and money advice please visit our website – moneyadviceservice.org.uk.

About this guide

This guide is for you if you cannot pay your mortgage now, or you think you may have this problem soon.

When you read it you will know:

- what steps to take now
 - what help you can get, and
 - where to go for more advice.
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Steps to take now

Lots of people are having trouble making their mortgage payments. If you're in this situation or you think you may be soon, talk to your mortgage lender now.

They need to know if there are specific reasons why you cannot or may not be able to make your mortgage payments so they can advise you of your options.

See the *Jargon buster* on page 11 for an explanation of some words you may come across.

For more about mortgages, go to our website moneyadvice.service.org.uk/mortgages.

What to do

1. Speak to your mortgage lender

Let them know why you can't pay your mortgage and tell them what you are doing. They may be able to give you some help – see page 6.

All mortgage lenders regulated by the Financial Services Authority (the UK's financial services regulator) have to consider your circumstances, and will have procedures for dealing with cases like yours. If you feel they're not treating you fairly see page 9.

2. Get specialist advice

If you're worried your debt problems are getting out of control get help from advice agencies that specialise in money problems. They can give you free and independent advice to help you deal with your situation – see *Useful contacts* on page 12.

Alternatively, if you're not sure where to start call us on 0300 500 5000.

3. Make a budget

List your income and your spending. This will help you see where your money is going, and plan for the future. Our Money Advice Service may be able to help you with this or you can use our online **budget planner** at moneyadvice.service.org.uk/budget.

Use this plan to help you pay all your essential bills first, such as your mortgage, utility bills (electricity, gas, water), insurances, council tax and housekeeping.

See where you can cut back to help pay those essential bills, including your mortgage. Use our **cut-back calculator** to identify savings – you might be surprised what you can save – see moneyadvice.service.org.uk/cutback.

Once you've drawn up your budget see how much you can pay. Even if you can't pay the full amount, you should try to pay as much of your mortgage payments as you can afford. This shows your lender you are doing your best and may increase your chances of keeping your home.

Your lender should be willing to talk to you about accepting less than the full monthly payments for a time. Speak to them and see what you can agree.

4. Check your insurance

If you can't pay your mortgage because your income has fallen, check whether you have any mortgage payment protection insurance. You may have taken it out when you started your mortgage.

If you do, find out if your policy covers your circumstances and make a claim right away.

If your claim is refused, and you don't agree with it, you may be able to take your case to the Financial Ombudsman Service – see *Useful contacts* on page 12.

Key points

- A mortgage is a loan secured against your home, so if you can't repay it and you get into arrears, the bank or building society can sell your home to get back its money.
- If you fall behind in your payments, the money you owe is called 'arrears'.
- Speak to your mortgage lender – tell them what you are doing and find out if they can help – see page 6.
- If necessary, get advice from a specialist agency.
- Review your budget and see where you can make savings.
- Pay what you can.

Things to avoid

Taking out a loan to pay your debts

Think seriously before taking out a loan to cover your repayments. These loans can be very expensive and are often also secured on your home, so putting it at greater risk. If you're thinking about getting another loan, speak to one of the debt advice agencies listed in *Useful contacts* on page 12.

Cutting back on essential expenses

Think carefully before you cut back or stop paying essential bills such as insurance or utility bills.

With insurance it is important to stop and think about whether spending a small amount on the premium is better than the risk of paying out thousands of pounds of your own money if anything were to happen.

You may be able to switch to a cheaper energy supplier so check out your options on the Consumer Focus website – see www.consumerfocus.org.uk.

Handing back the keys

Think carefully before handing back the keys to your mortgage lender so they can sell the house. Until it's sold you will still be responsible for paying the mortgage. If your house sells for less than you owe, your mortgage won't be fully repaid and you'll have to pay the shortfall.

The lender can start chasing you for this at any time up to six years after the sale (five years in Scotland). Your name will also be on the repossession register and it will be harder for you to get a mortgage in future. Get debt advice first.

Key points

- Getting another loan to pay your debts may not solve the problem.
- You're still responsible for paying your mortgage if you hand your keys back to the lender.
- You'll still have to pay any outstanding shortfall if the lender repossesses your home and sells it.
- Specialist advice agencies can help you sort out your debts.

Key things to think about

Financial help available

You may be able to get some financial help through state benefits or government schemes.

Financial support

You may be able to claim some benefits to increase your income. Contact your local Jobcentre Plus office (details in the Phone Book) or speak to a debt advice agency – see *Useful contacts* on page 12.

If you already claim Income Support or Jobseeker's Allowance, your local Jobcentre Plus office will normally give you some help with your mortgage repayments.

How much help you get and when it starts depends on when you took out your mortgage and how long you've been getting Income Support or Jobseeker's Allowance.

Even so, these extra benefits will only help to pay the interest part of your loan, and they are paid at a rate set by the government.

If you or you partner are 60 or over, you may be entitled to Pension Credit. You may also get an extra amount to cover your mortgage interest payments. To find out more, get a copy of the Pension Service's booklet – see *Useful contacts* on page 12.

Make sure you claim any tax credits you're entitled to – see *Useful contacts* on page 12.

Mortgage Rescue Scheme

You may qualify for a government backed mortgage rescue scheme if you're having serious difficulties paying your mortgage and will become homeless if your home is repossessed.

This scheme may arrange for you to sell your home to a social landlord and stay there as a tenant. Debt advice agencies can help you work out if you qualify – see *Useful contacts* on page 12.

Things you can do to pay off your mortgage arrears

You could think about any of the following:

Start repaying your arrears as soon as you can

Arrears can often lead to extra charges, so the amount of money you owe will increase. Paying them off quickly may mean you have less money for a short time, but it will be cheaper in the long run.

Make extra payments

You can pay off your arrears by paying a bit more each month than your monthly mortgage payments. Just make sure you can afford the extra amount. Even if your mortgage lender doesn't think you're offering enough, pay the extra amount anyway. Tell them why you can only afford this much – they may not be aware of your circumstances.

Extend your mortgage period

If you have a repayment mortgage and you've been paying it back for a while, you could ask your mortgage lender to extend the remaining term. This will reduce your monthly payments, but you will be making them for longer – perhaps into your retirement. Also, you will be paying more for your home overall.

This extension is more difficult to arrange if you have an interest-only mortgage and are using an endowment policy or ISA to pay off the loan.

Add the arrears to the mortgage

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

Your monthly payments will increase because of this. However, your mortgage lender is unlikely to agree to this if you've failed to stick to revised repayment arrangements in the past, or if the balance of your mortgage, including the cost of the arrears, comes to more than the house is worth.

Ask to delay paying 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 if you can delay paying arrears for a time.

For an interest-only mortgage, you can also consider:

- Taking a payment holiday

For example, if your mortgage is linked to an endowment policy and you can't afford both sets of payments (the interest payments on the loan and the payments towards the endowment policy), you could ask the endowment policy company if you can stop paying the endowment policy for a while. You will have to arrange with them how to make up the backlog of payments once you restart your policy.

- Cashing in or selling your endowment policy

If your endowment policy has been running for several years, it may have built up a reasonable amount that you could use to pay off your arrears. This would mean cashing in or selling the policy.

If you did this, you would have to take out a repayment mortgage, or find some other way to make sure you repaid the money you borrowed.

Before you cash in an endowment policy or change to a repayment mortgage, you will need to speak to your mortgage lender and the endowment company.

If you cash in your policy early, the value of your policy might be considerably reduced. You should think carefully before you do this, and first ask your endowment provider how much you would get.

Key points

- You may be covered by an insurance policy for your mortgage repayments.
- You may be eligible for help from the state if you're receiving benefits.
- You can discuss the different options with your mortgage lender.

As a last resort

If you can't afford your mortgage payments and you think this situation won't change in the long term, you may think about selling your home yourself.

If you keep your lender up to date and do everything you can to sell it, your lender should delay taking any action and should give you good time to sell your home. Check if your lender offers an Assisted Voluntary Sale scheme as it helps you sell the property and may help with the costs of selling.

However, before you do this, think carefully about where you will live. You may not get help from your local council with finding a place to live if they think you have made yourself intentionally homeless.

Selling your home and renting it back

Some companies offer to help you if you get into financial difficulties with your mortgage payments by buying your home and renting it back to you for a fixed term. This is called a sale-and-rent-back scheme. They can buy your home quickly, usually within three to four weeks.

Selling your home in this way may allow you to clear your debts and stay in your home, but watch out as:

- you will normally be paid less than the full market value of your home
- you could still have to leave after the fixed term of your rental agreement ends
- you could still be evicted if you breach the terms of your tenancy, and
- if the person or firm buying your home gets into financial difficulties, the property could still be repossessed and you might have to leave.

The Financial Services Authority (FSA) regulates the sale of these schemes. Make sure you deal with a regulated firm so you will have access to complaints procedures if things go wrong. Check the FSA Register to see if a firm is regulated at www.fsa.gov.uk/fsaregister.

Think carefully before choosing this option and read our **Sale-and-rent-back schemes** factsheet to help you understand the consequences. If you're unsure, talk to a debt adviser – see *Useful contacts* on page 12.

Also read the Department for Work and Pensions' guide **Advice for homeowners – sale and rent back**. It is available online, or you can ask your local council to print it out for you.

Your questions answered

Question:

What should I do if my lender takes me to court?

Answer:

Don't ignore the paperwork you are sent. Get advice from the debt agencies listed in *Useful contacts* on page 12.

Even if a lender starts court proceedings, you won't automatically lose your home. The lender must continue to look for ways for you to pay your mortgage, so you should continue talking to your lender and paying as much as you can.

If you are asked to go to court, a debt adviser from one of the agencies listed in *Useful contacts* (on page 12) will be able to help you. They can help prepare your case and may be able to represent you. Make sure you go to the court hearing.

Question:

How do I make a complaint?

Answer:

If you feel your mortgage lender or insurance company is not dealing with your case fairly, ask them for a copy of their internal complaints procedure. This should tell you how to get things sorted out quickly and easily.

If you're not happy with the answers, you may be able to take the matter to the Financial Ombudsman Service – see *Useful contacts* on page 12.

You can also find useful tips about making a complaint in our **Making a complaint** guide – see *Useful contacts* on page 12.

Take our online **health check**. Answer some straightforward questions and get your personal action plan to help you with your money must-do's and longer-term goals.

moneyadvice.service.org.uk/healthcheck

Next steps

Step 1

Speak to your mortgage lender as soon as possible to see if they can help – the sooner you act the better.

Discuss your options with them and find out which one may be best for you.

Step 2

Talk to a debt advice agency if you need help sorting out your debt – they offer a free service.

Step 3

Work out your budget and pay as much of your mortgage as you can each month.

Step 4

Check whether your repayments are covered by any insurance policy you have or whether state benefits may help.

Don't panic –

specialist debt advice agencies can help you sort out your debts and plan your spending.

Jargon buster

Some key words and phrases explained.

Arrears

Money you owe when you fall behind on your loan or rent repayments.

Capitalising arrears

Adding your arrears to your total mortgage balance and spreading the arrears over the remaining period of your mortgage.

Endowment policy

An investment plan that you usually pay into each month, which pays a lump sum when it matures.

Individual Savings Account (ISA)

A tax-efficient way of saving or investing, with limits on how much you can pay in each tax year.

Interest-only mortgage

A mortgage in which you pay only the interest charges of the loan each month. You are not reducing the loan amount (the capital), and you must repay this in some other way at the end of the term.

Mortgage

A loan secured on your property. If you don't keep up the mortgage repayments, your home may be repossessed.

Mortgage lender

The company you take out your mortgage with.

Repayment mortgage

A mortgage in which you pay off the loan amount (capital) and interest at the same time.

Sale-and-rent-back scheme

A scheme in which you sell your home at a discounted price and in return you stay living there as a rent-paying tenant for a fixed period.

Term

The length of your mortgage, normally stated in years.

Useful contacts

Money Advice Service

For advice based on your own circumstances or to order other guides

Money Advice Line: 0300 500 5000

Typetalk: 1800 1 0300 500 5000

Calls should cost no more than 01 or 02 UK-wide calls, and are included in inclusive mobile and landline minutes. To help us maintain and improve our service, we may record or monitor calls.

Other Money Advice Service guides

- Getting financial advice
- Making a complaint
- Your bank account

For more titles, call us or go to **moneyadvice.service.org.uk/publications**

On our Money Advice Service website you can find:

- a **budget planner** to help you work out if you have enough money coming in to cover your bills
- a **cut-back calculator** to help you see where you can save money on items you buy regularly, and
- a **mortgage calculator** to help you estimate your monthly mortgage payment.

Go to **moneyadvice.service.org.uk/interactive**

Call rates to the following organisations may vary – check with your telephone provider.

Financial Services Authority (FSA)

To check the FSA Register, or to report misleading financial adverts or promotions.

0845 606 1234

Minicom/textphone: 08457 300 104

www.fsa.gov.uk

Other organisations that can help you if you have money problems

Advice UK

Does not give advice but gives details of free debt advice agencies in its network.

020 7469 5700

www.adviceuk.org.uk

Citizens Advice Bureau (CAB)

Offers fee, confidential and face-to-face advice. Look in the Phone Book or on its website for your local bureau.

www.adviceguide.org.uk

Consumer Credit Counselling Service (CCCS)

Offers a structured programme of advice on how to manage your money.

0800 975 9558

www.cccs.co.uk

Credit Action

Works in partnership with the CCCS and publishes factsheets about debt and budgeting.

0800 138 1111

www.creditaction.org.uk

Consumer Direct

Does not provide debt counselling, but can give advice when a creditor or debt collector is acting unlawfully.

0845 404 0506

www.direct.gov.uk

Money Advice Scotland

Provides details of advice agencies throughout Scotland that offer a free, independent, impartial and confidential advice service.

0141 572 0237

www.moneyadvicescotland.org.uk

National Debtline

Provides a free, confidential and independent telephone advice service.

0808 808 4000

www.nationaldebtline.co.uk

Payplan

Free confidential advice on debt problems.

0800 716 239

www.payplan.com

Business Debtline

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

0800 197 6026

www.bdl.org.uk

Other helpful contacts

Local council

Your local council can advise you if you'll qualify for Housing Benefit if you want to enter into a sale-and-rent-back scheme. Look in your Phone Book for details.

Jobcentre Plus Office

Your local office can tell you if you are eligible for any state benefits – look in your Phone Book for details.

Financial Ombudsman Service

South Quay Plaza
183 Marsh Wall
London E14 9SR

0300 123 9 123 or 0800 0234 567

www.financial-ombudsman.org.uk

The Pension Service

For a Pension Credit booklet.

Order line: 0845 731 3233

Minicom/textphone: 0845 604 0210

www.direct.gov.uk/pensions

Directgov

For information about tax credits.

Tax credits helpline: 0845 300 3900

Minicom/textphone: 0845 300 3909

www.direct.gov.uk/money

This guide is part of our buying a home series.

Other titles in this series include:

- Dealing with your mortgage shortfall
- You can afford your mortgage now, but what if...?
- Sale-and-rent-back schemes

All our guides are available from:

Our website
moneyadvice.service.org.uk

Money Advice Line
0300 500 5000

If you would like this guide in Braille, large print or audio format, please call us on 0300 500 5000 or Typetalk on 1800 1 0300 500 5000.

Calls should cost no more than 01 or 02 UK-wide calls, and are included in inclusive mobile and landline minutes. To help us maintain and improve our service, we may record or monitor calls.

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