

August 2007

Our **MONEY**madeclear guides –
here to help you



Available from our Consumer Helpline or website
www.moneymadeclear.fsa.gov.uk

No selling. No jargon. Just the facts.

If you would like this guide in Braille, large print or audio format, please call our Consumer Helpline on 0845 606 1234 or Minicom/Textphone on 08457 300 104 (call rates may vary).

To help us maintain and improve our service, we may record or monitor calls.



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No selling.
No jargon.
Just the facts
about what
to do when
you can't pay
your mortgage.

MONEYmadeclear
from the UK's financial watchdog (FSA)

With our **MONEY** made clear range of guides, we cut out the jargon and give you just the facts about financial products and services, helping you to make an informed decision.

Just the facts about what to do when you can't pay your mortgage



The Financial Services Authority (FSA) is the UK's financial watchdog set up by government to regulate financial services and protect your rights.

Remember, this is general information and isn't the same as getting financial or other professional advice. For advice based on your own circumstances, talk to a professional adviser.

This guide is for you if

You are

unable to meet your mortgage repayments.

It's about getting out of arrears and:

- explains what you can do;
- sets out what help is available; and
- answers some of the questions you may have.

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Act now

If you're having trouble making your mortgage repayments, contact your mortgage lender as soon as possible to discuss your difficulties.

They need to know if there are specific reasons why you cannot make your mortgage payments.

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

For information about mortgages, get our **Mortgages** guide – see *Useful contacts*.

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'.

Things to do

Speak to your mortgage lender

Let them know why you can't pay your mortgage and tell them what you are doing. All mortgage lenders we regulate have to consider your circumstances, and will have procedures for dealing with cases like yours. Find out if they can give you any help – see page 6.

Get money advice

Some advice agencies specialise in money problems – they can give you free and independent advice to help you plan and solve your problems – see *Useful contacts*.

Work out a budget

List your income and your spending. This will help you work out where your money is going, and plan for the future. Advice agencies may be able to help you with this or you can use our online **Budget calculator** – see *Useful contacts*. 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.

Pay what you can

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 willing to make an effort to pay,

and may increase your chances of keeping your home.

Change how you pay your mortgage

If your problems are short term and you have a repayment mortgage, you may be able to move to interest-only payments for a time. This means you will not be paying anything off the overall amount. You will need to catch up on your payments towards the rest of your mortgage later.

Key points

- Speak to your mortgage lender – tell them what you are doing and find out if they can help – see page 6.
- Get advice from a specialist agency.
- 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, putting it at greater risk. If you're thinking about getting a further loan, speak to one of the advice agencies listed in *Useful contacts*.

Handing back the keys

Think carefully if you can't afford your mortgage and want to give the keys back 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 balance. 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 advice first.

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 then renting it back to you for a fixed period of time (six months or more). These are sometimes called 'flash sales', because they can buy your home quickly, sometimes within a week, but more usually between three to four weeks. You may also hear them called 'mortgage rescue', 'rent-back' or 'sell-to-let' schemes.

We don't regulate these schemes 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 all of their home for cash and retain the right to live in it for a nominal rent.

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. In addition most of these firms will pay you less than the market value of your property, so think carefully before entering into such a scheme and make sure you understand the consequences.

Key points

- Getting another loan to pay your debts may not solve the problem.
- You'll still have to pay any outstanding balance 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

You may be able to get some financial help through insurance or State benefits.

Insurance

If you can't pay your mortgage because your income has fallen, you should check whether you have any mortgage payment protection insurance.

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*.

Benefits

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 an advice agency – see *Useful contacts*.

If you 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 receiving 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 your partner are 60 or over, you may be entitled to Pension Credit. You may 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*.

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

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 will increase the amount of money you owe. 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.

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, spreading the arrears over the remaining period of your mortgage.

Your monthly payments will increase because of this. 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.

Extend your mortgage period

Most mortgages are paid back over 25 years. 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 to 25 years again. 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 house overall.

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

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.

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 could think about selling your home yourself.

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.

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

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.

Your questions answered

Question

Should I use a fee-charging debt management company?

Answer

You may be tempted to go to a debt management company.

These companies offer to sort out repaying your debts, but charge for their services. They can be expensive, and free help is available elsewhere.

For example, the Consumer Credit Counselling Service (CCCS) and Payplan both offer free debt-management advice.

They will help you work out the best way of dealing with your creditors without any danger of increasing the amount of money you owe – see *Useful contacts*.

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 agencies mentioned in *Useful contacts*.

Even if a lender starts court proceedings, you won't automatically lose your home.

If you are asked to go to court, a money adviser from one of the agencies listed in *Useful contacts* 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 can take the matter to the Financial Ombudsman Service – see *Useful contacts*.

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

No selling.
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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 money advice agency if you need help sorting out your debts – 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 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 in your loan repayments.

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 to save or invest.

Interest-only mortgage

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

Mortgage

A loan that is secured against your property.

Mortgage lender

The company you take out your mortgage with.

Personal equity plan (PEP)

A way of holding investments that is sometimes used to pay off a mortgage, but is no longer available.

Repayment mortgage

A mortgage where you pay off both the loan and the interest at the same time.

Term

The length of your mortgage.

Useful contacts

Call rates may vary – check with your telephone provider for their charges.

To order other Moneymadeclear guides, check our Register or for general information or guidance

Financial Services Authority (FSA)

Consumer Helpline: 0845 606 1234
Minicom/Textphone: 08457 300 104
www.moneymadeclear.fsa.gov.uk

Other Moneymadeclear guides

- **Getting financial advice**
- **Making a complaint**
- **Mortgages**

On our Moneymadeclear website you can find

- A **Budget calculator** to help you work out if you have enough money coming in to cover your bills
www.moneymadeclear.fsa.gov.uk/tools/budget_calculator.html

- A **Mortgage calculator** to help you estimate your monthly mortgage payment
www.moneymadeclear.fsa.gov.uk/tools/mortgage_calculator.html

Other organisations that can help you if you have money problems

Advice UK

020 7407 4070
www.adviceuk.org.uk

All members provide free and confidential advice, but not all provide money advice.

Citizens Advice Bureau (CAB)

(UK and Northern Ireland)
www.adviceguide.org.uk

Look in the Phone Book or on the CAB website for the telephone number of your local bureau.

Consumer Credit Counselling Service (CCCS)

0800 138 1111 (freephone)
www.ccss.co.uk

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

Credit Action

0800 138 1111 (freephone)
www.creditaction.org.uk

Works in partnership with the CCSS and publishes factsheets about debt and budgeting

Consumer Direct

08454 040506
www.consumerdirect.gov.uk

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

Money Advice Scotland

0141 572 0237
www.moneyadvicescotland.org.uk

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

National Debtline

0808 808 4000 (freephone)
www.nationaldebtline.co.uk

Provides a free, confidential and independent telephone advice service.

Business Debtline

0800 197 6026 (freephone)
www.bdl.org.uk

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

Payplan

0800 917 7823
www.payplan.com

Free confidential advice on debt problems.

Other helpful contacts

The Community Legal Service

www.clsdirect.org.uk

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

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
0845 080 1800
www.financial-ombudsman.org.uk

Complaints resolution

The Pension Service

0845 60 60 265
Minicom/textphone – 0800 60 60 285
www.thepensionservice.gov.uk

For a Pension Credit booklet

Directgov

Tax credits helpline – 0845 300 3900
Minicom/Textphone – 0845 300 3909
www.directgov.gov.uk (money, tax and benefits link) for information about tax credits.