



Citizens Advice Bureau

Citizens Advice Bureaux give free, confidential, impartial and independent advice to help you solve problems. To find your nearest CAB go to www.citizensadvice.co.uk or find us in the phonebook.

Other factsheets in this series

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dealing with debt

in Northern Ireland



MORTGAGE Arrears

Mortgage Arrears:

If you are in mortgage arrears, your mortgage lender will want you to clear them. If you don't do this, they will take action through the courts to get you evicted from your home (seek possession).

This will allow them to sell the property and use the money from the sale to help pay off the debt.

However, if your lender knows that you are trying your best to stop the debt increasing, they might allow you more time to sort the problem out. Depending on your circumstances, there may be several things you can do, but you must act quickly.



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Mortgage Arrears

Cutting down your monthly mortgage costs



You will need to be able to keep up with payments on your current instalments, as well as make payments off the arrears. If your financial difficulties are only short-term, you could think about asking your mortgage lender if they will agree to cut down your monthly mortgage costs for a limited period of time. Depending on the type of mortgage you have, you may be able to;

- Reduce your monthly interest payments.
- Increase the period of time over which the mortgage is paid. This would mean paying more interest in the long term.
- suspend repayment of the amount you borrowed (the capital) and make interest-only payments.
- Find a cheaper mortgage deal with another lender. You may have to pay charges for changing your mortgage lender and you will still have to pay off any arrears. The Financial Services Authority (FSA) website has information about switching your mortgage at: www.fsa.gov.uk
- Reduce the payments on your endowment policy.
- Stop making payments into your endowment policy, if you have an endowment mortgage. You will have to make up these payments at a later date.

Making any changes to an endowment policy can be complicated and financially risky. You should seek independent financial advice first if you are thinking of doing this.

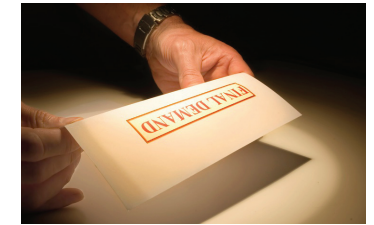
Paying off your arrears

You will need to try and come to an agreement with your mortgage lender about how to pay off your arrears. Before you do this, you should first work out **how much you can afford to pay**. Work out how much money you've got coming in and what your other outgoings are - including other debts. You may find it helpful to ask an experienced debt adviser to help you do this.

You will also need to decide how to pay off the arrears. You may have several options for doing this, including:

Mortgage Arrears

- paying an extra amount towards the arrears each month on top of your regular monthly payments
- arranging to have the arrears added to your capital (capitalising the arrears) and paid back over the remaining period of the mortgage. You will end up paying a much larger amount in total
- give up your endowment policy or sell it off to an investor. This will provide you with a lump sum of money which you can use to help pay off your mortgage arrears. However, you should think very carefully before doing this. You will need to find another way to pay off your mortgage loan and you will also need to find alternative life insurance cover. Get independent financial advice first
- raise a lump sum to pay off all the arrears in one go.



Increasing your income

If you are in mortgage arrears, you should also see if there are ways you can increase your income to help you deal with these and other debts.

You should:

- make sure you're getting all the welfare benefits and tax credits you're entitled to, some benefits entitle you to an allowance which will pay some of your mortgage costs. You will need to make up any shortfall
- check whether you have any mortgage protection insurance and make a claim on it
- think about taking in a lodger. This may have some drawbacks and you may need your mortgage lender's permission. Get advice about this first



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Dealing with your mortgage lender

Once you have worked out a way of dealing with your mortgage arrears, you should contact your mortgage lender as soon as possible and make them an offer. You may want to get the help of an experienced adviser to do this.

Write a letter to your mortgage lender, clearly setting out your offer. Your offer should be one which you can realistically keep to, and which will clear the arrears within the period of the mortgage.

It should be based on how much you can afford to pay. Include a financial statement with your letter which shows your mortgage lender how you have worked this out. Try and persuade your mortgage lender that accepting an offer worked out in this way is in both of your interests, because you are more likely to keep to it.

Start to make regular payments, however small. Even if your lender doesn't accept the offer, it may help your case if you are taken to court later on.

If you are not happy with the way your lender deals with your case, you can make a **complaint**. Find out about your lender's internal complaints procedure. If this doesn't work, you can complain to the Financial Ombudsman Service. For more information about this service, visit www.financial-ombudsman.org.uk, or phone 0845 080 1800.

If you haven't been able to agree with your mortgage lender on how to pay off your arrears, they will probably take you to court and try and get possession of your property. Before they take you to court, they have to follow a procedure called a **protocol**. This involves them taking a number of steps, such as talking to you about the reason for the arrears and giving you notice they will start court action if you have broken a payment agreement.

If you do go to court, the judge may allow you to stay in your property as long as you keep to an agreement to pay. The judge will take into account whether the mortgage lender followed the protocol. If you are in this situation, get help from an adviser.



Mortgage Arrears

What if you can't pay your arrears?

If you aren't able to clear your arrears, a court will probably give your lender permission to evict you from your home. Your lender will sell the property. If they don't make enough from the sale to cover the money you owe on your mortgage, you will have to pay the difference (**shortfall**).

If you can't find any other way of clearing your arrears, it may be better to try and **sell the property yourself**, rather than wait to get evicted and let your mortgage lender sell it. This is because they are likely to get a lot less for it than you would, leaving you with a debt to pay. Properties which have been taken back from the owner (**repossessed**) often sell for a lot less. Also, lenders often sell at auctions where sale prices tend to be lower.

Selling the property yourself would give you a lump sum of money which you could use to pay off your mortgage, and which, if you have enough left over, you may also be able to use to pay off other debts. You might need to get permission from your lender to sell the property.



Second Mortgages

A second mortgage is a type of secured loan, which is taken out on a property that is already mortgaged. You can usually only take out a second mortgage if the value of your home has increased since you bought it (in other words, if you have some 'equity' in your home). If you are thinking about taking out a second mortgage, you can speak to other lenders and shop around for the best deal. You don't necessarily have to take out a second mortgage with the same lender as your first mortgage.

However, you'll have to get your existing lender to agree to the second mortgage before you take it out. You'll also have to tell your new lender about your existing mortgage before you agree to anything. Both lenders will want to make sure that they will get their money back if you can't keep up the repayments for any reason and, if you already have a mortgage, it may affect what you can borrow second time around.

Usually, your first mortgage lender will take priority if you can't pay the money back but there are complex legal rules about this. The order in which lenders would be entitled to get their money back is called 'ranking' and some lenders may want a 'ranking agreement' before they'll lend you more money. If you're in this situation, you should speak to a solicitor for more advice or visit an advice centre.



Mortgage Arrears

Homeowners Mortgage Support

HMS is designed to help households whose incomes have dropped as a result of the economic downturn, for example:

- if you had two part-time jobs and you lose one of them
- if your hours have been cut or you can no longer work overtime
- if you or your partner loses their job and your household now relies on one income

This means your lender would **delay some of the monthly interest payments** on your mortgage for up to two years. This money is not written off and you will have to pay it back eventually. But, this gives you breathing space to get your finances back on track. All lenders will work with households who are having difficulty paying their mortgage to help them avoid repossession. This is known as forbearance. HMS is a type of extended forbearance which means lenders are offering longer than usual for borrowers having difficulties to get back on their feet.

How Homeowners Mortgage Support works

Your lender will usually refer you to an HMS money adviser at this point. If not, it would still be a good idea to get independent advice, to make sure that you fully understand what is involved. Check www.direct.gov.uk to see where you can get money advice. You can then apply for HMS through your lender, who will decide if this is in your best interests.

If your application is successful, you and your lender will agree new monthly payments. You must commit to **paying as much as you can afford**, which cannot be less than 30% of the interest due each month. This is **not** a payment holiday and you must keep up with the agreed payments each month to avoid having your home repossessed. The amount that you no longer pay back each month is added onto your mortgage balance, for a maximum of two years.

You will need to tell your lender if your financial situation changes. If you start to earn more, you must pay more back. If your situation has got worse, you may not be able to stay on HMS. After a year, you will have a formal review with your lender and independent money adviser to decide whether you are still eligible for HMS and whether continuing to make reduced payments is in your best interests.

You can start making normal payments again at any time, but you can only take advantage of the reduced repayments for **up to two years**. When you start making normal payments again, you and your lender will agree a reasonable and affordable way for you to repay the money you have delayed, plus what is left of your mortgage. This may mean increasing your monthly payments, or extending the life of your mortgage.

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Am I eligible for Homeowners Mortgage Support?

To be eligible for HMS, you will need to show that;

- Your income has dropped by a substantial amount and that you can no longer meet your current monthly payments. Your lender will want to be confident that this loss of income is only temporary.
- You must agree to pay as much as you can afford and at least 30% of the interest due. You and your lender will decide together how much you can afford, with help from your money adviser. It is in your interests to pay back as much as possible each month.
- You must switch to interest-only terms, if you have not done so already. You will not be reducing the balance of your mortgage while you are taking advantage of Homeowners Mortgage Support. Lenders will also usually say that your mortgage and any other loans secured against your home must not be more than a certain amount and your savings must be below a certain level.
- You must have taken out a mortgage or remortgaged before a certain date and you must have been making regular payments (though not necessarily the full amount due) over the five months before joining the scheme, unless you had agreed a payment holiday with your lender.

You will need to check these terms and conditions with your lender.

You will not be able to apply for HMS if;

- Your earnings are unlikely to return to their previous level, maybe because you have a long-term illness or you have given up work to care for a member of your family
- Your lender is not offering HMS (you can check this at www.direct.gov.uk/HMS)
- You are not working and are claiming Jobseeker's Allowance, Income Support or Employment and Support Allowance, but you may be able to claim Support for Mortgage Interest (SMI) instead
- You have mortgage payment protection insurance (MPPI) which covers your situation
- There are more suitable options available.

HMS is a complex procedure and in the opinion of Citizens Advice should not be entered into without Independent Financial Advice.

