

Guide to Homeowners Mortgage Support



HM Government

Real help now

This leaflet tells you about Homeowners Mortgage Support (HMS) and explains where to get more information.

This leaflet explains:

- what Homeowners Mortgage Support is
- who might be eligible
- how it will work
- the benefits and risks of taking part

If you are interested in getting help through Homeowners Mortgage Support, you will need to discuss this with your lender and then get independent money advice from an HMS money adviser.



Introduction

Homeowners Mortgage Support is part of the Government's offer of real help for homeowners who are struggling to keep up with their mortgage payments.

During the economic downturn, some people are finding it difficult to keep up with their mortgage payments and are worried about having their homes repossessed.

The Government is determined to help responsible families stay in their homes. Lenders have a legal responsibility to treat you fairly and to look into all other options before repossessing your home.



If you're worried about falling behind with your payments, get help.
Talk to your lender and get free, confidential money advice.
(See 'More information' at the end of this leaflet.)

You can also contact the Financial Services Authority (FSA) or the National Housing Advice Service for details on:

- the practical steps you can take to improve your situation
- other Government support
- what to do if your lender starts legal proceedings to repossess your home

You can find more information at <http://www.direct.gov.uk/mortgagehelp>

What is 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.

This leaflet explains the risks as well as the benefits of HMS. For example, your debt will be increasing and your home may go down in value while you are making lower monthly payments. This may result in negative equity, where your mortgage is more than the value of your home.

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Ian and Fiona

Ian and Fiona own a house in Dorset and have £127,000 left to pay on their mortgage. Fiona is a teacher, but Ian has lost his job as a journalist on the local paper and has taken on temporary freelance work.

Their interest rate is 4% and their payments are currently £770. After switching to an interest-only mortgage, their payments are £423. They can afford to pay 90% of the interest due, which is £381 a month.

Ian is able to find more secure work, so they only need to make smaller payments for six months. They have only put off £257 of the interest due. They have 20 years left on their mortgage, and are going to spread their postponed payment out over this period. They return to a capital repayment mortgage and pay £784 a month.

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How does it work?

- if you're struggling to keep up with your mortgage payments, you must talk to your lender as soon as possible and pay as much as you can afford each month
- your lender will help you to look into all the options. For example, you might think about switching to an interest-only mortgage, or they may be able to give you a break from making payments (a payment holiday). If there's no other suitable option, you may want to think about HMS
- 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 from
- 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 are no longer paying back each month is added onto your mortgage you have left to pay, for a maximum of two years



- you'll 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 (paying it back over a longer period)

Can I take advantage of HMS?

To be eligible for HMS, you will need to do the following.

- you must 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
- 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 of 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.

Pritesh and Radhika have a mortgage of £395,000 on a property they bought last summer. Pritesh has recently been made redundant. He had not been with the firm long, so his redundancy package was quite small, but he is confident of finding work at a similar level before the end of the year. Radhika also works but her pay doesn't cover all of the mortgage as well as the bills. They may be eligible for HMS.

Ashley and Jackie have a mortgage of £95,000 on their home which they've owned for five years. Ashley's firm has cut their working week back to three days and his wages have dropped as a result. Ashley and Jackie are finding it hard to pay their mortgage on this lower income. They may be eligible for HMS.

Amy has a mortgage of £175,000 on her flat. She is a self-employed sales agent but her clients have been cutting back and she is struggling to pay her mortgage. She can clearly show her drop in income and may be eligible for HMS.

Peter is no longer able to work after a car accident. He isn't eligible for HMS because his loss of income is likely to be permanent.

Jodie and Malcolm have been finding it hard to keep up with their mortgage payments, as Jodie's hours have been cut. They also have a flat which their daughter and her friends rent. They aren't eligible for HMS as they own more than one property.

Jack is a builder and is finding it hard to get full-time work at the moment. But, by working with a money adviser, he is able to cut his spending and arrange a repayment plan for his credit-card debt. So, he doesn't need to apply for HMS.

My lender says I can't apply. Why not?

Not everyone will be eligible for HMS, because it is designed to help homeowners in short-term difficulties who are likely to get back on track within a reasonable time.

So, 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

- you own more than one property, for example you will not be able to use HMS to keep up payments on a buy-to-let investment or
- your lender thinks you are not likely to be able to keep up with even the lower payments

If you are in negative equity (you owe more money to your mortgage lender than your property is actually worth), you may still be able to take advantage of HMS. But you and your lender – with help from your money adviser – will need to carefully consider whether HMS is right for you. It will increase your debt and may leave you in a worse position than you are in now if your home is repossessed in the future.

Discussing your situation with your lender and independent money advisers will help you decide if this is the right option for you.

You may have other loans which you have secured against your home as well as your mortgage. If this is the case, you may still be eligible for HMS, if all the lenders involved agree.

If you are not eligible for HMS, you should talk to your lender about the other options you may have.

What else do I need to know?

**HMS is not the solution to all your financial problems.
You need to fully appreciate all the possible risks.**

That is why independent money advice is so important. An adviser will look at your overall financial circumstances, as well as your mortgage payments, and help you consider where you can reduce other debts and cut expenses. They may also suggest ways of boosting your income, perhaps through claiming benefits you are eligible for. Some lenders will say that you must get money advice before you can apply.

You and your lender can then decide whether HMS is right for you. Even if you are eligible, the final decision will be up to your lender.



You need to remember the following:

- **HMS is not a 'payment holiday' – you will need to continue to make monthly mortgage payments**
 - your monthly payments will be cut for up to two years, but your overall mortgage will not be reduced. You are simply putting off part of the payment
 - your debt will be increasing and interest will be charged on the payment you have put off
 - it is in your best interests to pay off as much as you can afford each month
 - you will need to extend your mortgage term or make higher repayments than you currently pay, to pay off the debt you have put off
- **if your circumstances change, HMS may no longer be the best option for you**
 - for example, if you lose your job and can no longer keep up with the smaller payments, another Government scheme may be more suitable
 - it is vital that you keep your money adviser and lender up to date with your situation
 - if your income increases, it is in your best interest to increase your payments as soon as possible, to keep the amount you are putting off to a minimum.

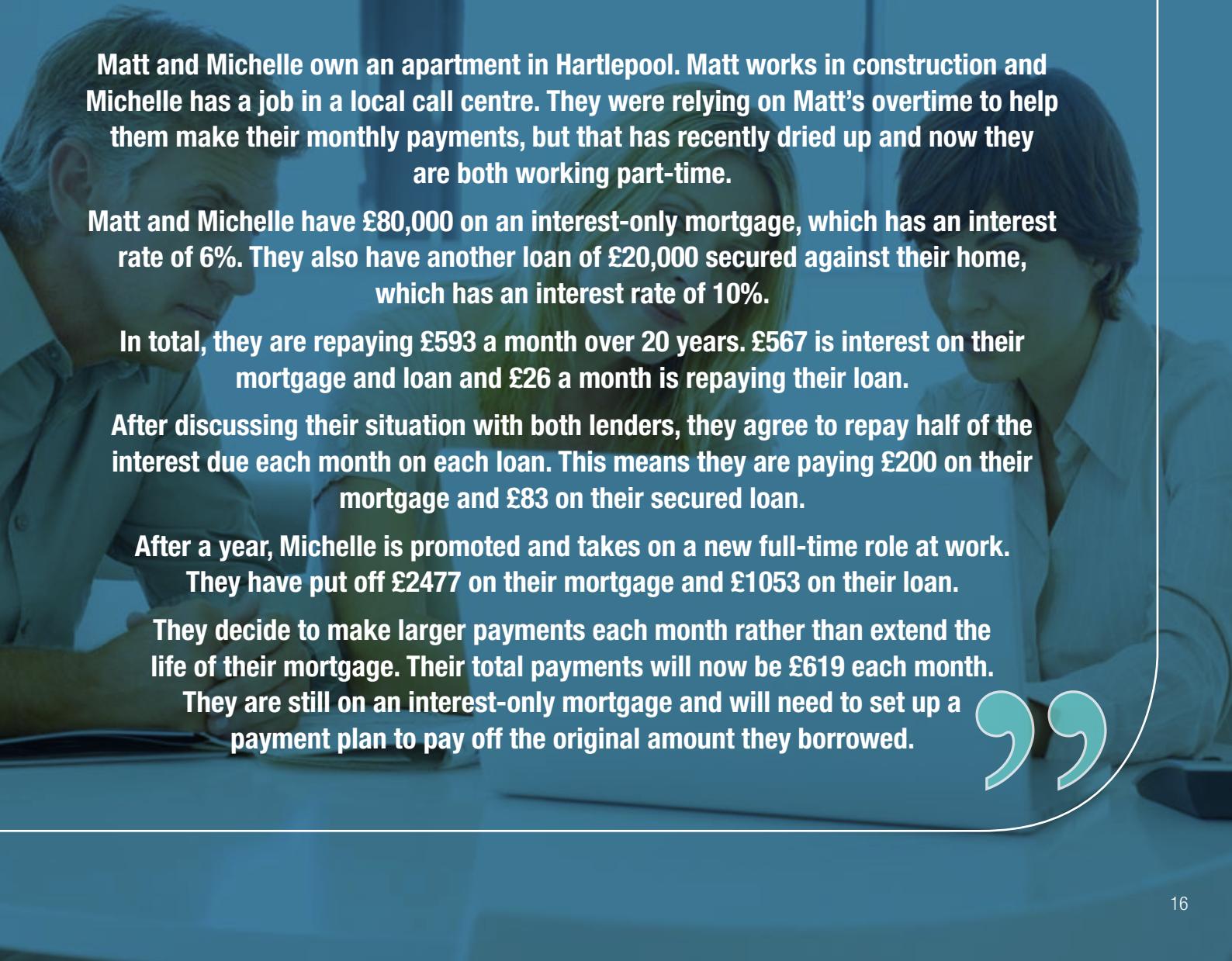
- **HMS is only a short-term solution, while you get your finances back on track**
 - if you don't think that you can keep up with a mortgage over the long term, you will need to discuss other options with your lender and your independent money adviser. These could include buying a smaller home or renting instead
- **if you cannot make the payments due, your home could still be repossessed**
 - HMS can help to reduce the risk of having your home repossessed, because you should find it easier to keep up with the lower monthly payments
 - HMS cannot get rid of the risk completely. If you cannot go back to normal payments after two years, or if your situation gets significantly worse, your home may still be repossessed
 - if you have your home repossessed in the future, your debt will be larger and your home may not be worth as much as it is now, so you may still owe your lender money

So, before deciding that you want to apply, make sure you fully understand the risks, as well as the benefits.

HMS is only designed to help with your mortgage payments and other secured loans. If you have other debts, you will need to work out sensible payment plans with your money adviser.

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Matt and Michelle



Matt and Michelle own an apartment in Hartlepool. Matt works in construction and Michelle has a job in a local call centre. They were relying on Matt's overtime to help them make their monthly payments, but that has recently dried up and now they are both working part-time.

Matt and Michelle have £80,000 on an interest-only mortgage, which has an interest rate of 6%. They also have another loan of £20,000 secured against their home, which has an interest rate of 10%.

In total, they are repaying £593 a month over 20 years. £567 is interest on their mortgage and loan and £26 a month is repaying their loan.

After discussing their situation with both lenders, they agree to repay half of the interest due each month on each loan. This means they are paying £200 on their mortgage and £83 on their secured loan.

After a year, Michelle is promoted and takes on a new full-time role at work. They have put off £2477 on their mortgage and £1053 on their loan.

They decide to make larger payments each month rather than extend the life of their mortgage. Their total payments will now be £619 each month.

They are still on an interest-only mortgage and will need to set up a payment plan to pay off the original amount they borrowed.

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Summary

Homeowners Mortgage Support will cut your monthly repayments for up to two years, giving you time to get your finances back on track.

But:

- your debt will increase and you will end up paying more than you planned for
- afterwards, your monthly interest payments will be higher, or you will need to extend the term of your mortgage, to repay the amount you have put off
- your home may go down in value
- if you stop making payments, your home could still be repossessed

What should I do next?

- keep making regular payments each month and make sure you tell your lender if you cannot pay the full amount
- talk to your lender and get free independent money advice to discuss the options available to you

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John and Elizabeth

John and Elizabeth own a flat in London and have £285,000 left to pay on their mortgage. John is a consultant and Elizabeth looks after their young child. John is working on a long-term project but his hours have been cut back substantially.

They have an interest-only mortgage and are repaying £1188 a month at an interest rate of 5%. With their money adviser, they work out a budget and think they can pay about half of the interest due, which is £594.

Two years later, John has found full-time work again and Elizabeth has also gone back to work part-time. They go back to normal payments having put off £14,999. They have 20 years left on their mortgage, but have decided to extend it by a year. They switch to a capital repayment mortgage and are now paying £1980 a month.

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More information

For more information about HMS, including answers to frequently asked questions, a list of lenders who are taking part and a list of HMS money advisers, go to www.direct.gov.uk/HMS

For more general advice, visit www.direct.gov.uk/mortgagehelp or the Financial Services Authority website at www.moneymadeclear.fsa.gov.uk/mortgages

The National Homelessness Advice Service has a useful leaflet called *Are You Worried About Your Mortgage* which explains all the different options. You can download it from www.nhas.org.uk



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