

How to Handle Mortgage Arrears

A Fact sheet for Journalists

Background

With the interest rate rise announced today, the BSA thought that it may be helpful to provide advice on what mortgage holders should do if they think that the rise will cause them problems repaying their mortgage. A fact sheet for consumers is also attached.

A MORI survey for BSA found that 91% of borrowers said that as soon as they had problems paying their mortgage they would get in touch with their lender, explain the situation and work out a remedy – this is exactly what they should do.

Only 2% questioned said they would do nothing in the hope that their situation would improve. However, overwhelming evidence from building societies shows that in practice people do not talk to their lender, afraid of the consequences that their home will be repossessed.

Nothing is further from the truth. Building societies want to help and repossession is always a last resort.

Five Steps to Keeping Your Home

- 1 – Contact your building society as soon as possible to tell them your problems
- 2 – Be totally honest with them about your situation
- 3 - Work out a repayment plan with your building society
- 4 – Keep a close eye on your finances to make sure you are able to keep up with the agreed plan
- 5 – If you are having any difficulties keeping to the plan, contact your society again and see if it can be reviewed

If you follow these steps, you will be able to clear the mortgage arrears and gain peace of mind

What Should Someone Do Who Has Difficulty Paying Their Mortgage?

A borrower who finds that they are having difficulty paying the mortgage should contact their lender as soon as possible.

Anyone doing so will find a sympathetic voice at the end of the line. Building society staff are trained to assist customers experiencing financial difficulties in an individual way, and recognise that it can be a very difficult call to make. They also understand that most repayment problems are not the direct fault of the borrower, but are usually caused by circumstances out of their control such as bereavement, relationship breakdown or losing their job.

What Happens When a Borrower Contacts a Society?

Societies have individual processes for dealing with arrears and repayment problems. However, they all involve the borrower and lender jointly developing a repayment plan.

Development of the repayment plan involves the borrower listing their income and expenditure, to allow them and the society to identify where savings can be made. This will often see other loans being rescheduled and amended. This helps people to regain control of their finances in general as well as helping mortgage payments.

Each call is treated on an individual basis. Callers to the Yorkshire Building Society, for example, may be allowed a concessionary period (usually of between three and six months) when the borrower has to pay only the interest on the loan. Alternatively, the Society may give the borrower the opportunity (so long as the borrower is less than two months in arrears) to switch to a different mortgage product that would reduce the monthly repayment.

Likewise, borrowers with the Ecology Building Society find that, so long as borrowers contact the society first, they may be given the possibility to reduce their monthly repayments for up to six months or, dependent upon the borrower's circumstances, to take a payment holiday for a similar period.

Even if a borrower does not get in contact, societies have systems in place to identify customers who are falling into arrears. Again, even though contact with the customer may have been initiated by the society, steps will be taken to determine a repayment plan that is suitable for the borrower.

Arrears are then regularly discussed with the borrower to see how the repayment plan is going and to see if any changes are required.

It is vital that borrowers are upfront with their society regarding their financial commitments and the situation that they find themselves in. This means a solution can be developed that suits both the borrower and the society.

Typical of the results of this approach are the experiences of two borrowers who had mortgages with the Skipton Building Society. A man who had been made redundant was allowed to move to an interest only mortgage. When, three months later, he had found a job, he was allowed to extend the interest only arrangement further until he had been paid by his new employer and sorted out his finances.

Another Skipton customer with health problems was unable to work until he had tests to find out what was wrong. In that instance, the society reduced his payments from £400 per month to just £150 per month until he was back on his feet again.

Further Help and Advice

Although the building society will try to provide the borrower with any further help that they need, organisations such as Shelter are also able to provide independent advice. Advice can also be obtained from Citizen's Advice Bureaux and from the National Debtline.

Societies are more than happy to work with professional organisations to ensure that the borrower is helped and a suitable repayment plan is put in place.

All it Takes is a Phone Call

If these steps are followed and the borrower sticks to the repayment plan, they should be able to get back on track.

Building societies want to help consumers stay in their homes and manage the, usually temporary, difficulties that they are in. Repossession is the last resort and comes only at the end of a long line of assistance.

All it takes is a phone call.....

The Truth About Repossessions

The numbers of properties that were repossessed by lenders increased to 17,000 in 2006 (CML). This represents an increase of some 64% over the year before. However despite the personal tragedies each statistic represents, the figure is only around one-sixth of the numbers of repossessions that were taking place during the early 1990s.

The reasons for this are complex and linked to the general economic environment. However, this reduction has also been achieved by improvements in the ability of building societies to ensure that their lending is only to people who can afford the loan that they are taking on, and the skill with which societies are now able to manage arrears to ensure that people with repayment problems are able to continue living in their home.