Government mortgage rescue scheme

What will it mean for me and my family?

Crystal Mark 18285 Clarity approved by Plain English Campaign

HM Government

Real help now

What is mortgage rescue?

Mortgage rescue is help that the Government is offering if:

- you are struggling to keep up with your mortgage payments;
- you have had all the help your lender is offering; and
- you are worried about having your home repossessed.

The law says that local authorities have to help certain groups of people who have their home repossessed, and need help so that they do not become homeless.

Using mortgage rescue, local authorities can help you **before** you have your home repossessed, so you can stay in your home rather than being rehoused.

Your local authority will consider applications for the Mortgage Rescue Scheme. They will decide if you are eligible for the scheme and whether your case is a priority for the scheme. They will need to assess not only your case but other possible cases for mortgage rescue in your local area.

If you joined this scheme, a housing association would:

- provide you with an interest-only loan to pay off some of your mortgage and reduce your monthly payments; or
- pay off your mortgage and buy your home so that you can stay there as a tenant.

This leaflet explains:

- what mortgage rescue is;
- what help you could get; and
- what mortgage rescue will mean for you and your family.

This leaflet can only give you general information on the scheme. You will have questions about what it will mean for you, such as how much you will be paying each month. This all depends on your individual circumstances.

You will need to be in regular contact with your local authority housing officer, your lender, and your money adviser. The more information you can give them, the better they can help you and the more accurate they can be when they explain what the scheme means for you. You will need to be involved in helping to deal with your financial situation using mortgage rescue.

You will also be offered free independent financial advice so that you fully understand what is involved before you sign any contract.

Who is mortgage rescue for?

Mortgage rescue is aimed at vulnerable homeowners who are at risk of having their home repossessed. You must have already tried all other options available to you to keep your home.

You may be eligible for mortgage rescue if you are struggling to pay your mortgage and:

- you, or someone you live with, has dependent children (someone who is 15 or younger or a person aged 16 to 18 who is a full-time student) who live with you;
- you are, or someone you live with is, pregnant; or
- you are, or someone you live with is elderly, ill or disabled.

You must also:

- not own any other properties;
- have a yearly household income under £60,000; and
- be at risk of having your home repossessed (your mortgage lender is trying to get possession of your property through the courts)

Your local authority will need to do a detailed assessment to decide whether or not you are eligible. They will need to be sure that you:

- own and live in the property, and that you want to stay there; and
- are eligible and that you are in one of the three priority groups being targeted through the scheme.

They will then pass your details to a housing association who will want to make sure that:

- your home is suitable for them to buy, as they cannot buy a home which is in very bad condition; and
- the value of your home is not more than the limit for your area, as they cannot buy very expensive homes. Your local authority can tell you what your local limit is.

Even if you are eligible for mortgage rescue, your local authority does not have to offer you mortgage rescue. They may think it is not suitable or that there is a better option for your family.

Mortgage rescue is a serious step. So you need to fully understand all the consequences of accepting or refusing mortgage rescue. Your money adviser and housing officer will be able to explain exactly what it will mean for you.

After your local authority has referred you to a housing association for mortgage rescue, it can take between four to six months or more to complete the process. This is similar to the time it might take to sell your home, because you will be going through a similar process that involves having your home valued and negotiating with your lender and housing association. It is very important that you keep up with your mortgage repayments during this time. If you cannot make the full payment, talk to your lender about what you can afford. If you need help with negotiating this, ask your money adviser.

There are two options available using mortgage rescue – Equity loan (previously known as 'Shared equity') and 'Government mortgage to rent'. Your local authority will decide which one is most suitable for you. Each option is aimed at people in different circumstances.

To understand how mortgage rescue works, you need to understand the idea of 'equity'. Equity is the difference between how much your property is worth and the amount you owe on your mortgage. For example, if your home is worth £100,000 and your mortgage is £75,000, the equity in your home is £25,000. How much equity you have in your home will affect which type of mortgage rescue you are eligible for.

You might be worried about being in 'negative equity.' This is when the value of your mortgage and any other charges secured on the property is greater than the value of your home. You can still apply for mortgage rescue as long as your mortgage and debts secured against your home are not more than 120% of the value of your house. For example, if your house is worth £100,000, your mortgage and the loans you have secured against it must not be more than £120,000.

When you apply for mortgage rescue, your local authority will give you an estimate of how much equity you have in your home – or whether you are in negative equity. Later on, a housing association will formally value your home, which will confirm both the value of your home and the amount of equity you own.

What happens if I decide to apply?

You are not able to apply for mortgage rescue unless you have looked into all other options first.

You must already have spoken to your lender and your money adviser. You can also talk to them during the application process if you have any questions or worries.

Your money adviser will support you to put together a financial statement. This will help the local authority understand your circumstances and decide which scheme best suits your needs.

Your local authority will now assess in detail whether you are eligible for mortgage rescue, and say which option – Equity loan or Government mortgage to rent – is most appropriate for you.

If they decide you are eligible, they will pass your details to your local housing association. This is only the first part of the process and doesn't mean you will definitely get mortgage rescue.

You must speak to your money adviser and your local authority if your circumstances change while your application is being considered.

The housing association will arrange for your home to be valued. Depending on the result of your valuation and how much debt you have, they will make you an offer.

You do not have to accept this offer. You will have eight days to think about it. You will be offered free independent financial advice before you sign anything. You do not have to follow this advice, but it will help you make an informed decision.

Mortgage rescue
Equity loan

The Equity loan option (previously known as ‘Shared equity’) is where a housing association lends you an interest-only loan which is secured on your home. You will use the loan to pay off part of your mortgage or pay off any other loans that may be secured on your home. If you get an Equity loan you will be able to afford your monthly housing costs.

The loan can be between 25% and 75% of your mortgage, depending on how much help you need to reduce your monthly housing costs.

To be eligible for an Equity loan you must have no more than 40% equity in your home. That means the mortgage you have left to pay and the loans secured against your home, must not be more than 60% of the value of your home.

Example

James bought his house five years ago for £100,000. Today, he owes £60,000 on his mortgage, so his mortgage is 60% of the value of his home. James has 40% equity and qualifies for an Equity loan.

Ideally you should have at least 25% equity in your home. Your application may still be considered if you have less than 25% equity, depending on your circumstances and how much your monthly outgoings and debts are. An independent money adviser will be able to tell you how an Equity loan can help to reduce your monthly housing costs

Who is the Equity loan option for?

The Equity loan option is most suitable for vulnerable families who are in serious financial difficulty, but who will be able to keep up with lower mortgage payments over the long term.

How does it work?

First, with the help of an independent money adviser you need to decide how much you need to reduce your monthly housing costs by.

The housing association will then work out the size of the Equity loan you need to help you reduce your monthly costs. The loan will be used to reduce your mortgage or to pay off any other loans that may be secured on your home.

The Equity loan will then become the second loan you need to pay each month, in addition to whatever remains on your mortgage.

Your monthly housing costs will be simplified into the following two payments:

- your mortgage payments (which, if this was your only mortgage, will be reduced); and
- an interest-only payment to the housing association for the Equity loan.

In total your monthly housing costs will be reduced.

The interest rate for an Equity loan is fixed at 1.75%. Every year the interest rate will be reviewed in line with inflation, which means it could change. But it will not be lower than 1.75%.

Example

James has now decided to get an Equity loan to reduce his monthly mortgage payments. He owes £60,000 on his mortgage and his repayments are currently £360 a month.

The housing association lend him an Equity loan of £15,000 which he uses to pay off part of his mortgage. He now owes £45,000 on his mortgage, and his repayments have been reduced to £220 a month. He pays £26 a month to cover the cost of the loan. He is now paying £246 a month in total, £114 less than before.

You must remember that the final amount you will have to pay back to the housing association is linked to the value of your home. The monthly Equity loan payments you make are interest-only payments, which means they do not reduce the total amount of Equity loan you owe.

When you take out the Equity loan you are not charged any other fees up front. However, you will have to pay an equity contribution of 3% of the value of the loan (worked out when the loan is taken out) which will be added to the final amount of your loan when you pay it off.

Example

Andy's house is worth £100,000. He needs an equity loan of £30,000. His equity contribution will be £900. When he comes to sell in two years, the value of his house has not changed. He has been making interest payments on the equity loan, but has not yet paid off any of the balance. That means after he has sold the house, he needs to repay the housing association £30,900: the original amount he borrowed, plus his equity contribution.

Leo's home is worth £125,000 and his mortgage is £75,000. He borrows an equity loan of £25,000. This is 20% of the value of his home. His equity contribution will be 3% of this £25,000 which is £750. His total Equity loan percentage is 20.6%. In five years time, he decides to sell. His home has gone up in value to £150,000. He has been making interest payments on the equity loan, but has not yet paid off any of the balance. After selling the house, he needs to repay 20.6% of the new value of his home - which is £30,900.

How will I pay the Equity loan back?

You can take out an Equity loan for up to 25 years but this will depend on your circumstances and will usually be linked to how much mortgage you owe.

You may want to repay the loan sooner, for example if your finances improve. You can pay off the loan in lump sums but you cannot repay less than 10% of the value of your home as a lump sum.

You could pay off the loan by:

- saving up until you have enough to make a lump sum payment;
- remortgaging to borrow a larger amount from your lender if your home increases in value (which means you would have more equity); or
- selling your home, if this would raise enough money to pay off your mortgage and your Equity loan. The amount you pay will depend on the value of your home when you sell it.

When you get to the end of the loan term, you will need to repay the total amount of the loan. This means you may need to sell your home at that time or remortgage against the value of your home to pay the Equity loan off.

Example

Paul and Lauren had a mortgage of £75,000. Their home was worth £100,000. They took out an Equity loan of £25,000, reducing their mortgage to £50,000. They inherit £12,500, so pay off some of their equity loan. As well as reducing the amount you owe, this will also reduce the interest payment due each month.

You are still the homeowner and so you are responsible for maintaining the home and carrying out any repairs.

The Equity loan option is a serious step. To decide if the loan is suitable for you, the housing association will offer you a free appointment with an independent financial adviser. They can go through the loan with you in detail and help you decide if it is the best thing for you.

Mortgage rescue
Government mortgage to rent

Under the Government mortgage to rent option, a housing association buys your home. You would no longer own it, but you would stay there as a tenant.

It means that you do not have to sell your home and rent another property – you can rent the home you already live in.

Who is Government mortgage to rent for?

Government mortgage to rent is suitable if you do not think that you can keep up with a mortgage any more.

For example, it could be suitable if you:

- have been unemployed for a long time and do not think you can find work which will help you keep up with paying a mortgage;
- do not have much equity in your home, because you have only owned it for a short time; or
- have a lot of other debt secured against your home, for example, secured loans which you have taken out.

How does it work?

A surveyor representing the housing association will value your home and use this to work out the rent you will need to pay. You may also be able to claim housing benefit to help you pay your rent.

Your rent will be less than the market rate – the rent on similar properties in your area. The rent you are asked to pay will depend on where you live in the country.

You will then be a tenant on a fixed contract for at least a year. If you keep up with your rent and other conditions of your tenancy it could last much longer.

You will then sell your home to the housing association. You will need a solicitor (which the housing association will pay for).

When the housing association buys your home, you must use the money to pay off your mortgage. If you have any money left, you should use it to repay other debts. A money adviser will be able to help you work out your priorities.

It could take between four to six months or longer to sell your home to the housing association. You must continue to make regular payments to your lender during that time.

You may have heard of private companies who offer to buy your house more quickly. These schemes are commonly known as sale-and-rent-back schemes or simply rent-back or sell-to-let. You should only consider sale-and-rent-back schemes as a last resort, and you should make sure you have looked at other options first. You should be aware of the risks involved in some of these schemes. For example, they:

- may only offer you a contract for a few months;
- may pay a lot less than your home is worth; or
- may charge you a very high rent.

If you need to consider these types of schemes, always make sure the company you use is regulated by the Financial Services Authority before you enter into any agreement. A regulated company must meet certain standards.

The Government scheme offers you more guarantees and a low rent. After the sale is complete, you will pay rent to the housing association rather than a mortgage to your lender. You must pay this on time and keep to the conditions of your agreement, or you could be evicted.

Your housing association is now responsible for maintaining your home and carrying out any repairs.

Do I have to pay for it?

You do not have to pay anything upfront, but you will be paying rent each month.

When the housing association buys your home, they will offer you 90% of the value of your home and keep 10% of the value to cover their costs.

This will mean 90% of the value of your home will pay off your mortgage and other debts. In effect, you are making a 10% 'equity contribution'.You will need to speak to with your money adviser to see how this will affect you.

If you are in negative equity, and are unable to make this contribution, you may still be able to participate. Your lender may agree to make the contribution for you. They may either write off your debt to them, or they may give you a loan and ask you to pay it off.

Example

Polly's home is worth £120,000. She owes £105,000 on her mortgage and she pays £642 a month in mortgage repayments. After taking away Polly's equity contribution, the housing association pays her £108,000 for her home. This leaves her with £3,000 to pay off her other debts. After selling her home, her rent is £480, which is £162 a month less than she was paying before.

What if I want to buy my home back?

You will have no legal right to buy your home back. You may be able to buy your home back in the future, but it is likely that you would have to pay the market price at the time. Your housing association will be able to give you advice on how this could work.

You can get more information on what the Mortgage Rescue Scheme means for you and your family from your local authority housing department. You can also get free advice about the scheme from your local citizens advice bureau or other advice agencies such as National Debtline (on 0808 808 4000), the Consumer Credit Counselling Service (on 0800 138 1111) or Shelter (on 0808 800 4444).

Published by the Department for Communities and Local Government; October 2011 © Crown Copyright, 2011. ISBN: 978 1 4098 41449 8