

MORTGAGE SUPPORT SCHEME

March 09

In December 2008 the Government announced a plan to provide additional support for homeowners struggling to meet their mortgage repayments through the Homeowner Mortgage Support Scheme ('the Scheme').

The Scheme aims to help homeowners who suffer a loss of income and cannot temporarily afford their mortgage repayments, to re-adjust their monthly instalments with their lender's consent, with a view to retaining possession of their homes.

Homeowners accepted into the Scheme will be able to pay as much as they can afford towards their monthly instalments and the amount which then remains unpaid each month will be added by the lender to the mortgage debt. The idea is that the lender will defer payment of the remaining proportion of the monthly instalment until such time as the homeowner's personal situation improves. The deferral period will initially be for 12 months from the date of the homeowner's entry into the Scheme, after which time a review of the borrower's continuation in the Scheme will be undertaken.

The Government's role within the Scheme is to provide lenders who participate in the Scheme with a guarantee protecting them against any loss arising from having agreed to defer interest, in a situation where the homeowner has defaulted under the Scheme and the property is repossessed. Under its guarantee, the Government will pay the lender any interest that is deferred under the Scheme which cannot be recovered from the sale of the property that has been repossessed.

To qualify under the Scheme homeowners will need to satisfy the following criteria:

- The property on which the mortgage is secured must be the homeowner's sole residence. Buy-to-let or investment properties will not qualify. Equally a household owning more than one home will not be eligible.
- The homeowner will need to show that the loss of income is temporary and that it affects the homeowner's ability to pay the full amount of the monthly mortgage instalments. Homeowners eligible for assistance with their mortgage under the already existing benefit of Support for Mortgage Interest (SMI) will not qualify under the Scheme.
- The outstanding mortgage and any other charges secured on the property must not exceed £400,000.
- The homeowner must not have savings in excess of £16,000.
- The lender and the homeowner must have discussed and exhausted all available alternative options. The homeowner must also have continued to make regular payments towards the mortgage (but not necessarily in full) for at least five months. The homeowner will also need to have received debt advice from an accredited debt adviser.
- If the mortgage is not already on an "interest only" basis then the homeowner must agree to switch the mortgage to this basis.
- The homeowner must be assessed as being able to still meet at least 30% of the monthly (interest-only) instalments. This is just for the purposes of assessment. Borrowers will be expected to pay as much as they can towards the instalments, rather than this minimum amount.

Since it announced the idea of the Scheme in December 2008 the Government has been working with mortgage lenders, trade associations and money advisers to finalise the terms of the Scheme. The Government plans to make the Scheme available to householders from April 2009. Although the Scheme will be voluntary, the eight largest mortgage lenders, which cover approximately 70% of the UK mortgage market, have agreed in principle to support the Government-backed scheme.

Prodromos Shakallis

prodshakallis@cartercamerons.com