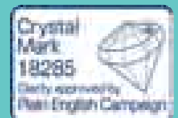
Government mortgage rescue scheme

What will it mean for me and my family?



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.

If you joined this scheme, a housing association would:

- provide you with a low-interest 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

Your local authority believes you might be eligible for this scheme.

This leaflet explains:

- what mortgage rescue is
- what help you can 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?

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

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 does not exceed 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.

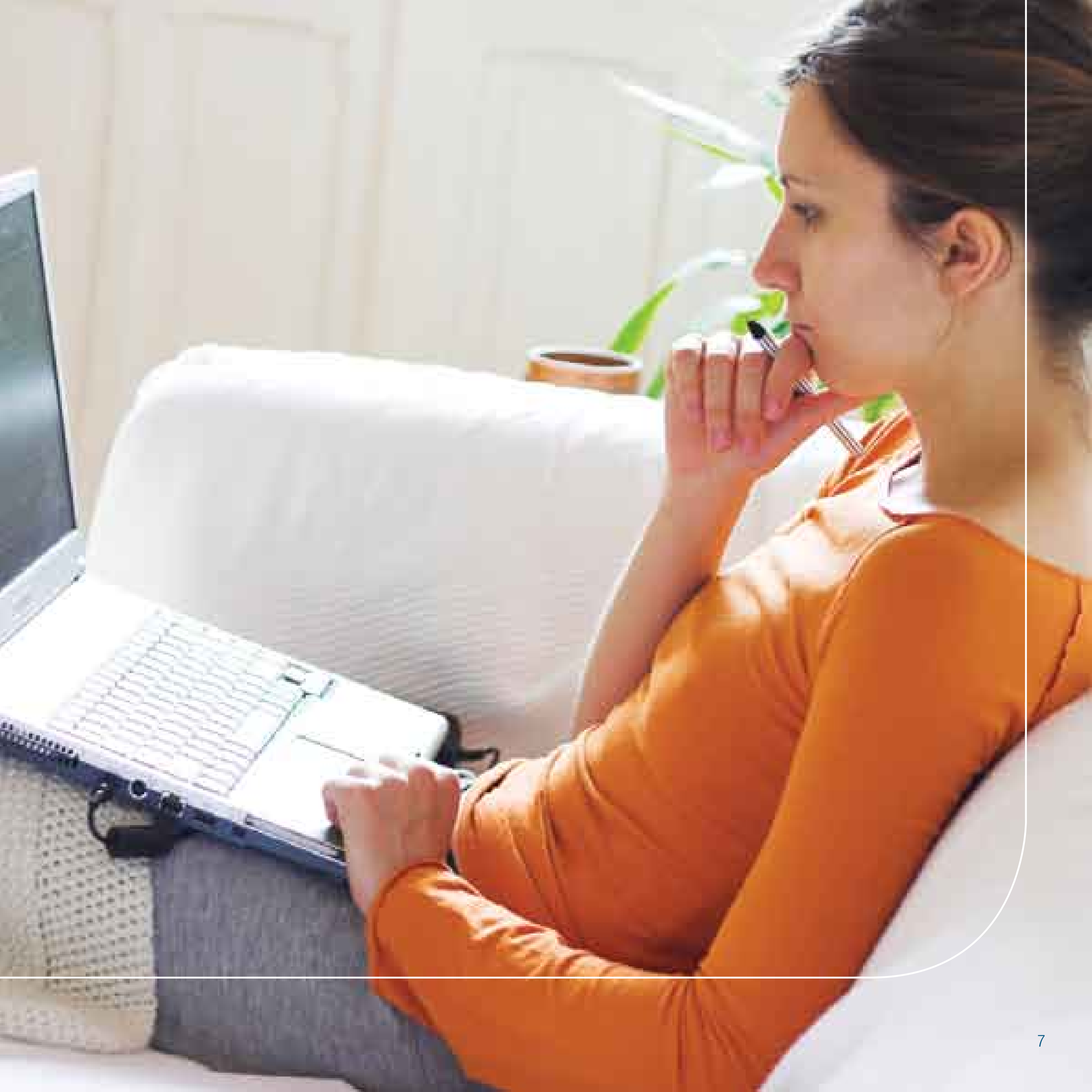
After your local authority has referred you to a housing association for mortgage rescue, it can take between three to four months to complete the process. This is similar to the time it might take to sell your home, because you will be going through a similar process that involves having your home valued 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 –'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 additional secured charges 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 – shared equity or Government mortgage to rent – is most appropriate for you.

If they decide you are eligible, they will pass your details to the local housing association.

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
Shared equity

Shared equity is where housing association lends you a low-interest equity loan which you use to pay off part of your mortgage immediately. This loan will be between 25% and 75% of your current mortgage, depending on how much you need to be able to afford your mortgage payments.

Because you now have a smaller mortgage, your monthly repayments will be reduced.

To be eligible for shared equity, you must have at least 25%, but 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 75% of the value of your home.

Example

James bought his house five years ago. It cost £55,000, and he took out a mortgage of £50,000. Today, he owes £45,000 on his mortgage, but his home is worth £75,000. So his mortgage is only 60% of the value of his home. James has 40% equity and qualifies for a shared-equity loan.

Who is shared equity for?

Shared equity 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.

For example, you may be ill at the moment but think you will be able to work again in the future.

How does it work?

First, you must work out how much you can afford to pay each month, with help from an independent money adviser.

The housing association will then work out how much equity loan you need to pay off some of your mortgage and cut your payments to a level which you can afford. The loan goes straight to your lender to pay off part of your mortgage.

You will now be making two payments each month:

- a mortgage payment to your lender
- an interest payment to the housing association

But in total, these will be less than what you are paying at the moment.

Example

Sarah owes £65,000 on her mortgage. Her home is worth £90,000. Her repayments are currently £380 a month. She can afford to pay £239 a month.

The housing association will lend her £32,500 which halves the amount she owes on her mortgage. Her mortgage is now £190 a month, and she pays £47 to cover the costs of the loan. She is paying **£237 a month, £143 less than before.**

How does an equity loan work?

The loan from the housing association is linked to the value of your home. This means they are not simply lending you a fixed amount. They are lending you a percentage of the value of your home.

So if your home goes up in value, you will pay the housing association more. But if the value of your home falls, the value of the loan will not reduce. You will pay back the amount you borrowed.

You do not have to pay anything upfront for the loan, but you do have to make a contribution from the value of your house to cover the housing association's costs. This is called an 'equity contribution'. It means the housing association will add an extra 3% of the value of your equity loan (at the point when you take the loan out) to the amount you have to repay. This will vary if your house changes in value. You are not charged any interest on this contribution. You will pay your equity contribution either when you sell your home, or when you have finished paying off the rest of the loan.

Example

Andy's house is worth £100,000. He needs a shared-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 leaving a total equity loan of 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 – plus the £750 equity contribution. In total, this is £30,750.

The interest rate on the loan is 1.75%. This is not fixed and will increase slightly each year depending on changes in inflation.

You will be making an interest payment to your housing association each month. They will tell you how much you will be paying back each month and how this will be affected by changes in the interest rate.

You can pay the interest on the loan:

- over 25 years or
- over the life of your current mortgage

which ever is soonest.

You will also need to pay back the loan itself. Because an equity loan is not a fixed amount, but linked to the value of your home, you will not be making monthly payments. Instead, you need to pay back the loan in lump sums. You could do this 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

Each lump sum payment will be a minimum of 10% of the value of your home. So you will need to have your home revalued when you want to pay a lump sum.

It may take you some time to save up this amount, but you have up to 25 years to pay the loan off. You would need to pay back all of the loan if you wanted to move.

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 outstanding, 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.

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 three to four months to sell your home to the housing association. It's important that you 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. 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

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 97% of the value of your home and keep 3% of the value to cover their costs.

This will mean 97% of the value of your home will pay off your mortgage and other debts. In effect, you are making a 3% ‘equity contribution’.

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 £110,000 on her mortgage and she pays £642 a month in mortgage repayments. After taking away Polly’s equity contribution, the housing association pays her £116,400 for her home. This leaves her with £3,600 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.