

Mortgage arrears

If you are in mortgage arrears, your mortgage lender will want you to clear them. If you don't do this, they will take action through the courts to get you evicted from your home (**seek possession**). This will allow them to sell the property and use the money from the sale to help pay off the debt.

However, if your lender knows that you are trying your best to stop the debt increasing, they might allow you more time to sort the problem out. Depending on your circumstances, there may be several things you can do, but you must act quickly.

Cutting down your monthly mortgage costs

You will need to be able to keep up with payments on your current instalments, as well as make payments off the arrears. If your financial difficulties are only short-term, you could think about asking your mortgage lender if they will agree to cut down your monthly mortgage costs for a limited period of time. Depending on the type of mortgage you have, you may be able to:

- reduce your monthly interest payments
- increase the period of time over which the mortgage is paid. This would mean paying more interest in the long term
- suspend repayment of the amount you borrowed (the **capital**) and make interest-only payments
- find a cheaper mortgage deal with another lender. You may have to pay charges for changing your mortgage lender and you will still have to pay off any arrears. The Money Advice Service website has information about switching your mortgage at: www.moneyadviceservice.org.uk
- reduce the payments on your endowment policy
- stop making payments into your endowment policy, if you have an endowment mortgage. You will have to make up these payments at a later date.

Making any changes to an endowment policy can be complicated and financially risky. You should seek independent financial advice first if you are thinking of doing this.

Paying off your arrears

You will need to try and come to an agreement with your mortgage lender about how to pay off your arrears.

Before you do this, you should first work out **how much you can afford to pay**. Work out how much money you've got coming in and what your other outgoings are - including other debts. You may find it helpful to ask an experienced debt adviser to help you do this.

You will also need to decide **how** to pay off the arrears. You may have several options for doing this, including:

- paying an extra amount towards the arrears each month on top of your regular monthly payments
- arranging to have the arrears added to your capital (capitalising the arrears) and paid back over the remaining period of the mortgage. You will end up paying a much larger amount in total
- give up your endowment policy or sell it off to an investor. This will provide you with a lump sum of money which you can use to help pay off your mortgage arrears. However, you should think very carefully before doing this. You will need to find another way to pay off your mortgage loan and you will also need to find alternative life insurance cover. Get independent financial advice first
- raise a lump sum to pay off all the arrears in one go. You could do this, for example, by borrowing money.

Increasing your income

If you are in mortgage arrears, you should also see if there are ways you can increase your income to help you deal with these and other debts. You should:

- make sure you're getting all the **welfare benefits** and **tax credits** you're entitled to. Some benefits entitle you to an allowance which will pay some of your mortgage costs. You will need to make up any shortfall
- check whether you have any **mortgage protection insurance** and make a claim on it
- think about **taking in a lodger**. This may have some drawbacks and you may need your mortgage lender's permission. Get advice about this first
- think about moving out of the property and **letting** it. This may have some drawbacks and you may need your mortgage lender's permission. Get advice about this first.

Dealing with your mortgage lender

Once you have worked out a way of dealing with your mortgage arrears, you should contact your mortgage lender as soon as possible and make them an offer. You may want to get the help of an experienced adviser to do this.

Write a letter to your mortgage lender, clearly setting out your offer. Your offer should be one which you can realistically keep to, and which will clear the arrears within the period of the mortgage. It should be based on how much you can afford to pay. Include a financial statement with your letter which shows your mortgage lender how you have worked this out. Try and persuade your mortgage lender that accepting an offer worked out in this way is in both of your interests, because you are more likely to keep to it.

Start to make regular payments, however small. Even if your lender doesn't accept the offer, it may help your case if you are taken to court later on.

If you are not happy with the way your lender deals with your case, you can **make a complaint**. Find out about your lender's internal complaints procedure. If this doesn't work, you can complain to the Financial Ombudsman Service. For more information about this service, visit www.financial-ombudsman.org.uk, or phone:

- **0800 023 4567** free for people phoning from a "fixed line" (for example, a landline at home)
- **0300 123 9 123** free for mobile-phone users who pay a monthly charge for calls to numbers starting 01 or 02.

If you haven't been able to agree with your mortgage lender on how to pay off your arrears, they will probably take you to court and try and get possession of your property. Before they take you to court, they have to follow a procedure called a protocol. This involves them taking a number of steps, such as talking to you about the reason for the arrears and giving you notice they will start court action if you have broken a payment agreement.

If you do go to court, the judge may allow you to stay in your property as long as you keep to an agreement to pay. The judge will take into account whether the mortgage lender followed the protocol. If you are in this situation, get help from an adviser.

What if you can't pay your arrears

If you aren't able to clear your arrears, a court will probably give your lender permission to evict you from your home. Your lender will sell the property. If they don't make enough from the sale to cover the money you owe on your mortgage, you will have to pay the difference (**shortfall**).

If you can't find any other way of clearing your arrears, it may be better to try and **sell the property yourself**, rather than wait to get evicted and let your mortgage lender sell it. This is because they are likely to get a lot less for it than you would, leaving you with a debt to pay. Properties which have been taken back from the owner (**repossessed**) often sell for a lot less. Also, lenders often sell at auctions where sale prices tend to be lower.

Selling the property yourself would give you a lump sum of money which you could use to pay off your mortgage, and which, if you have enough left over, you may also be able to use to pay off other debts. You might need to get permission from your lender to sell the property.

Be very careful about signing up to a **sale and rent back scheme** run by a private company. There are a number of risks involved in these schemes which you need to be aware of. Mortgage rescue schemes run by local authorities or housing associations are generally better. In England, there is also a government-backed mortgage rescue scheme which helps vulnerable

homeowners but you might not qualify. Get advice before signing up to any kind of sale and rent back or mortgage rescue scheme.

Don't be tempted to just leave the property and hand back the keys to your mortgage lender unless you've sold the property or there is a court order to evict you. You won't gain anything by doing this. You will still be responsible for mortgage payments and buildings insurance until the property is sold, and will still have to make up any shortfall if the sale doesn't make enough to cover what you owe.

If your lender asks you to give up the keys, you don't have to do this. If your lender wants to take possession of the property, they have to get a **court order** first.

Arrears on second mortgages

You may have taken out a second mortgage on your home, for example to pay for repairs, home improvements, or to pay off other debts. If you get into arrears on a second mortgage, the mortgage lender will usually try to get **possession** of your property. Get help from a specialist debt adviser.

Further help

Citizens Advice Bureau

Citizens Advice Bureaux give free, confidential, impartial and independent advice to help you solve problems. To find your nearest CAB, including those that give advice by e-mail, click on [nearest CAB](#), or look under C in your phone book.

Other information on Adviceguide which might help

- Help with debt
- Dealing with people you owe money to
- What happens if you are taken to court for money you owe
- Bailiffs
- How to sort out your mortgage problems
- Selling a home

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