Caution advised over remortgaging for equity release

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Responding to the findings of a study showing that large numbers of homeowners have looked to equity tied up in the value of their homes to “get through hard times”, financial solutions company Think Money have advised people who are struggling with debt to consider their options carefully, and if necessary, look into alternative debt solutions.

A report from the study, carried out between 2001 and 2005 by researchers from Durham University, claimed that “struggling households have borrowed against their homes to meet their basic needs”. It also claimed that remortgage (http://www.thinkmoney.com/mortgage/remortgage/) equity withdrawal had become more common in recent years, with two in five homeowners ending up with higher mortgages than the previous year in each year of the study.

On average, the households studied added £5000 to £7500 to their mortgages in a given year – and some withdrew up to three quarters of the equity in their homes this way.

A mortgage expert for Think Money commented: “While an equity withdrawal remortgage can be a very useful source of additional funds, it’s important that it is used carefully and that the borrower can afford to repay the full amount.

“Remortgaging to withdraw equity can be a useful way of raising funds. However, we would advise that a remortgage as a form of debt consolidation is a big financial commitment that carries a big risk to the homeowner.

“On the one hand, the difference to the homeowner’s mortgage payments can be relatively small, since they can be spread over up to the duration of the mortgage. But on the other hand, it is a reduction in the homeowner’s equity, which increases the risk of negative equity. Also, since a mortgage is a secured debt, the homeowner can face repossession if they run into trouble with future payments.

“As such, remortgaging to help meet day-to-day costs could put the homeowner at unnecessary risk, unless it has been thoroughly thought out beforehand. If the homeowner is already being pushed to the limits by debt, a debt consolidation remortgage might not make a significant improvement to their situation, and could increase the risk of repossession.”

The Think Money spokesperson added that there are other ways of addressing financial difficulties. “The first thing we advise people who are struggling to meet their financial commitments is to seek independent financial advice. They may simply advise the person in debt on how to approach their creditors and negotiate reduced payments or a payment holiday.

“If the problem is more serious, and the debt is becoming unmanageable, there are a number of debt solutions that could help – for example a debt management (http://www.thinkmoney.com/debt/debt-management/) plan or an IVA (http://www.thinkmoney.com/debt/IVA/) (Individual Voluntary Arrangement). Both of these can help to reduce monthly outgoings without risking repossession.

“As with any debt solution, it’s always advisable for homeowners to speak to an expert debt adviser to discuss their options.”

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