REDUNDANCY DOES NOT MEAN REPOSSESION by Tailored Home

Submitted by: Tailored Home
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The Government has introduced a series of schemes to protect home owners from loss of income or redundancy in 2009? Tailored Home looks at the options available.

FEAR of unemployment is dominating Britain's economic recovery.
Gordon Brown may have promised £500m over the next two years to encourage 500,000 of the country's long-term unemployed back into work. But where's the cash to support mortgaged up home owners if and when redundancy notices fall through letter boxes in 2009?

Well, if a short-term break from the office or the factory floor threatens to ruin your year, there are some things already in place that might just keep the roof over your head until the storm passes.
On December 3, 2008, Her Majesty's Treasury unveiled the Homeowner Mortgage Support Scheme. It is intended to provide assurance to homeowners that they will be able to remain in their properties if they suffer a temporary fall in income.

A bridge to recovery

Treasury documents detailing the scheme describe it like this: "A bridge, giving homeowners who are experiencing financial problems sufficient time to find new employment or recover income, without the added concern and stress of potentially losing their home in the interim."
Banks have agreed to sign up to the package, which will see lenders reduce mortgage payers' current monthly payments.
The deferred payments are rolled up and added to the mortgage to be paid off at a later date when borrowers' financial circumstances have improved.
Now that might seem like an unlikely prospect in the event that you do get made redundant, but a lot can change for the better in 12 months.
But what if things get worse or the job prospects don't improve?
To persuade lenders to join the scheme, the government has guaranteed a proportion of any losses incurred on the deferred payment if the mortgage payer should default.
The scheme will run for two years, subject to review. Each borrower's arrangement will be given a maximum duration period but the agreement will expire as soon as the borrower is able to resume normal payments.

Defaults

If, during the period of guarantee, the customer defaults, the Government will pay the lender the equivalent sum of the total amount of the interest guaranteed that is not recoverable from equity in the property.
Britain's eight largest lenders, who account for over 70 per cent of the mortgage market, have agreed in principle. They are; HBOS, Nationwide, Abbey, Lloyds TSB, Northern Rock, Barclays, RBS and HSBC.
Chancellor Alistair Darling said of the scheme: "This is real help for homeowners at risk of repossession through no fault of their own. The scheme will give people who face a temporary fall in their income the confidence that they need to rearrange their finances so they can come through a

difficult period without losing their home.”
So exactly how difficult is it to qualify for the rescue package?
Well in order to be eligible, borrowers must meet certain criteria. If you are anticipating catch here, it’s not all bad.
Borrowers must be suffering from a loss of income from employment or self employment, which is sufficient to make full mortgage payments ‘difficult’, however, they should not expect their loss of income to be permanent. In other words, there must be a reasonable expectation of a new job or income at some time in the future.
Borrowers must have taken out a mortgage of up to £400,000 and must be making regular payments.

Savings

If you have significant savings, then forget it. This is where the scheme falls down.
Borrowers’ banks accounts must contain less than £16,000. The borrower must also be the owner-occupier of the property in question.
No help is available for second homes or buy-to-let properties.
Borrowers also need to pay a certain monthly amount on an ongoing basis and finally, need to fall into arrears for a number of months during which the lender has exercised forbearance.
Additional help to families at risk of losing their homes involves as extension to the Income Support for Mortgage Interest Scheme, which allows mortgagers in financial trouble to get their mortgage interest payments met, subject to a list of eligibility criteria. The move was announced in the pre-budget report and came into effect on January 5th.

Defaults

As of October 1995 borrowers received no support for the first 39 weeks of a claim, unless their circumstances were classed as ‘vulnerable’, in which case they were entitled to 50% of their mortgage interest payments. After that 39 week period customers were eligible for full interest payments. The scheme was only available to those with mortgages of up to £100,000. Mortgagers aged over 60 were exempt from the 39 week waiting period.
A Department for Work and Pensions report commented on the 1995 guidelines: “These changes to ISMI, introduced in October 1995, were accompanied by a clear shift in policy towards safety-net provision whereby mortgagors were expected to provide cover against unemployment, sickness and accident in the private insurance market, at least in the first instance.”
As of January 5, 2009, the waiting period for Support Mortgage Interest has been cut by two thirds from 39 weeks to 13 weeks and the scheme will now be available to homeowners with mortgages of up to £200,000. The Standard Rate of Interest which is used as the basis to calculate SMI has been frozen at 6.08% for the next six months for all customers including pensioners.

Debate

In a Commons debate on December 18, 2008, Yvette Cooper, Chief Secretary to the Treasury, described the changes to the scheme as ‘the right approach to take’, because relief would be available to all those who have lost their job and been out of work for more than 13 weeks rather than for the full 39 weeks to which the relief used to apply.

“That is the right thing to do and the relief will apply to more people,” she said.
“It is certainly clear that this is about providing more support to people at a difficult time.”
Those who had already been waiting for 13 weeks by January 5 immediately qualified for the scheme. Others will qualify as soon as they reach 13 weeks. Those in vulnerable groups entitled to the 50% rate at or after 5 January will receive this rate until the 13 week point when they will become entitled to the full rate. A two year time limit on SMI will be placed on some income based Job Seekers Allowance claims.
Worried

James Purnell, Secretary of State for Work and Pensions, commented on the new plans, saying, “We don’t want people who are worried about paying their mortgage to have to wait any longer than they need to for this financial help.”
Other schemes are expected over the coming months.
Not-for-profit housing associations have already been approved to buy homes from people struggling to pay their mortgage. The original owner will continue to live there with the option to buy back later. The £200m scheme, devised last year by the National Housing Federation, is expected to help 6,000 households from repossession.
Willing those redundancy notices not to materialise may be enough. But if the worst happens, know that your home might be safer than you think.

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