Press Release

Unknowingly underinsured: Restructured mortgage holders

Thousands of struggling mortgage holders left financially exposed

Mortgage arrears and/or mortgage restructuring arrangements may mean that thousands of homeowners in Ireland are unknowingly insufficiently covered by their mortgage protection policy. Mortgage Protection is a life insurance policy designed to pay off the outstanding mortgage if one of the policyholders dies during the term. However, if one of the homeowners passes away and the life insurance is not adequately covering the outstanding mortgage due to underinsurance, it could leave the surviving homeowner with an unexpected, and potentially substantial, financial shortfall. This is according to leading protection provider Royal London who is alerting mortgage holders that may have fallen into arrears to make sure they haven't been left exposed.

As a result of the financial crisis in the 2000's and the economic downturn that followed, around 1 in 8* mortgage holders (at its highest in 2013) in Ireland fell behind on their payments. It's likely that some of these people may be underinsured, regardless of whether they are still in arrears today or if they entered into a restructuring arrangement with their lender at the time.

Royal London point to data from the Central Bank of Ireland which shows that the number of principal dwelling house mortgage accounts that were classified as restructured at end-December 2021 was 47,062.** Figures also show that in December last year the number of Irish principal dwelling house owners in mortgage arrears for more than two years was over 21,000.**

Proposition Lead at Royal London, Barry McCutcheon, commented:

"We believe a significant proportion of the over 47,000 families who have restructured their mortgage may not have reflected these changes in their mortgage protection cover. If that's the case, it means they are not covered for thousands of Euros that they owe to their lender. Mortgage protection policies generally cannot be restructured, and in most cases a new policy would need to be put in place to reflect the fact that the mortgage isn't reducing

or to match the revised mortgage agreement. Understandably, this could come as a great source of shock and worry to a property owner following the death of their co-owning spouse or partner. This unknown underinsured amount could mean they are left with a shortfall on their mortgage at a time when they can least afford it. And while it's quite possible that the lender might write off the uninsured balance in such an instance, it would be unwise for any mortgage holder to rely on the possibility of such 'generosity' on their behalf."

In arrears and underinsured: Case in Point

Royal London looked at the following sample case:

- A couple took out a €300,000 mortgage for 30 years in 2006 and took out the equivalent amount of mortgage protection.^
- In 2016, their bank agreed to switch them to interest-only for four years and they returned to full repayments in 2020.
- Should either pass away, the individual left behind would currently have a shortfall of €11,569 – which is the difference between what they owe and what a typical mortgage protection policy would cover.

Barry explained,

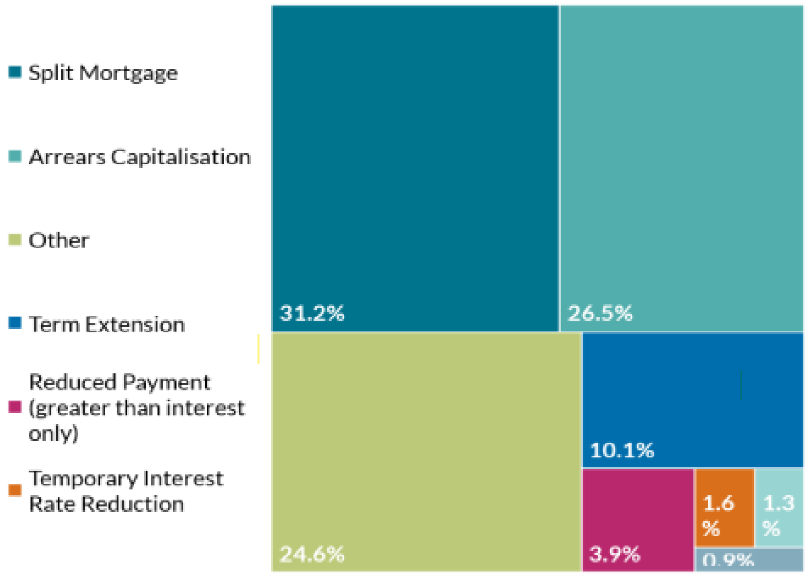
"When the interest-only period ends, the lender will re-establish repayments in one of two ways. They may extend the term sufficiently to ensure that if the homeowner resumes the monthly repayments at the original amount the loan will clear, usually after an extra couple of years. Or they can increase the regular repayment amount so that the arrears are repaid over the original mortgage term. Either way, there's likely to be a shortfall. The higher the repayment, the quicker the shortfall may reduce."

There are a number of situations where mortgage holders in arrears enter into special agreements with their lenders. It would then be necessary to review or amend the mortgage protection cover in place to avoid any underinsurance. The 47,062** restructured mortgages are currently subject to measures, like the following, which are designed to help the homeowner stay in their home:

1. Split Mortgage
2. Arrears Capitalisation
3. Other
4. Term Extension
5. Reduced Payment (greater than interest only)
6. Temporary Interest Rate Reduction
7. Interest Only (over one year)
8. Interest Only (up to one year)

See chart. **

Chart 3: Restructured PDH Mortgage Accounts by Restructure Type, as at end-December 2021



There are 21,675** homeowners that are in long-term arrears (over two years) and are therefore likely to have a far greater shortfall in their mortgage protection, assuming that they've maintained the premiums on their policy.

Barry finished by saying: *"We know that the impact of the pandemic has tested the financial resilience of many Irish homeowners who may have dipped into their savings or lost out on earnings over the past two years. Being underinsured on their mortgage protection could come as a nasty surprise to homeowners at a time when it's needed the most. If you're a mortgage holder concerned about the adequacy of your mortgage protection, we recommend speaking with a Financial Broker who can provide advice based on your individual circumstances."*

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Sources:

* Central Bank of Ireland, Residential Mortgage Arrears and Repossessions Statistics: Q2, 2013
https://www.centralbank.ie/docs/default-source/statistics/credit-and-banking-statistics/mortgage-arrears/gns-6-2-2-4-2013q2_ie_mortgage_arrears_statistics.pdf?sfvrsn=4

** Central Bank of Ireland, Residential Mortgage Arrears and Repossessions Statistics: Q4 2021
https://www.centralbank.ie/docs/default-source/statistics/data-and-analysis/credit-and-banking-statistics/mortgage-arrears/2021q4_ie_mortgage_arrears_statistics.pdf

^ Mortgage runs down monthly at 3.5% p.a. and the mortgage protection policy runs down monthly at 6% p.a.

Notes to the Editor:

About Royal London:

Royal London has a history of protecting our policyholders and their families for over 190 years in Ireland, and we're committed to continue to do so for a long time to come! Today we are owned by The Royal London Mutual Insurance Society Limited – the largest financial life, pensions, and investments mutual in the UK, with over 4,267 people, providing around 8.8 million policies and more than €195 billion in Group funds under management. (Figures as at December 2021).

Royal London's Irish office is based at 47-49 St Stephen's Green, Dublin 2.

03/2022 2146.1