ROYAL LONDON

Press Release

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Thousands of struggling mortgage holders left financially exposed

New study finds that many families who've been through the stress of mortgage arrears and restructure are now underinsured and may be left with a mortgage shortfall

A new study undertaken by Royal London has found that many families who fell into arrears on their mortgage during the recession may now be underinsured on their mortgage protection policy. The leading protection specialist contends that this is potentially the case for thousands of homeowners regardless of whether they are still in arrears or have entered into restructuring arrangements with their lender.

The impact of the recession resulted in around 1 in 8* mortgage holders, at its highest in 2013, falling behind on their payments. According to the Central Bank of Ireland the current number of private dwelling houses which are classified as restructured stands at 118,477** as at December 2017.

According to Barry McCutcheon, Proposition Lead at Royal London, *"Many families who were struggling to make their mortgage commitments would have entered into new agreements with lenders, in order to be able to cope financially with their monthly repayments. We believe a significant proportion of the over 100,000 families who have found themselves in this position may not have reflected these changes in their mortgage protection cover, and therefore have become underinsured as a result. Essentially, what this would mean for a couple is if either were to pass away, the surviving spouse could be left with a shortfall on their mortgage at a time when they can least afford it – which understandably would be a great source of shock and worry for this person."*

Royal London says that as mortgage protection policies generally cannot be restructured, 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.

Barry went on to comment, *"While it's quite possible that the lender would 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."*

While no one likes to keep considering issues relating to their own or loved ones' mortality, it's important that policy owners take the time to reassess if their cover is adequate especially if they have a family with an ongoing need for a home to consider.

Restructuring Mortgage Protection

Barry advised, *"Mortgage protection policies are a low-cost but relatively inflexible product designed to decrease in line with a typical capital and interest mortgage. But when those payments are interrupted or reduced, then there's a likelihood that a gap will grow between the outstanding mortgage including arrears and the policy cover. This is because the assumed capital repayments have not been made. With people so focused on getting themselves to a point where they can afford the mortgage, it's understandable if they have not thought to check whether their existing mortgage protection cover is still sufficient. Even those that have managed to get their mortgage back on track could have an issue."*

Royal London looked at a couple who had taken out a €300,000 mortgage for 30 years in 2004, the couple also took out the equivalent amount of mortgage protection***. In 2014 their bank agreed to switch them to interest only for 4 years and they then return to full repayment in 2018. Should either pass away the individual left behind would currently have a shortfall of €11,569 - that being the difference between what they owe and what a typical mortgage protection policy would cover.

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.

Royal London also says there are a number of situations where mortgage holders in arrears enter into special agreements with their banks where it would be necessary to review or amend the mortgage protection cover in place to avoid any underinsurance. The 118,477** restructured mortgages are currently subject to measures, like the following, which are designed to help the homeowner stay in their home.

1. Interest Only – over one year (probably beyond 2 years) regardless of whether the term is extended or repayments are increased in the remaining years
2. Interest Only – up to one year
3. Reduced Payment (less than interest only)
4. Reduced Payment (greater than interest only)
5. Term Extension
6. Arrears Capitalisation
7. Payment Moratorium
8. Deferred Interest Scheme
9. Split Mortgage

In addition, there are 28,946** homeowners that are in long term arrears (over 720 days) 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 concluded: *"We believe that people need to periodically think about their financial security and take the necessary action to make sure they have adequate financial protection in place to protect themselves and their family. This is particularly true if your financial or personal circumstances change. If you're a mortgage holder who has concerns about your level of protection a Financial Broker is best placed to advise you about the best solution to meet your individual needs."*

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Note to the editor

About Royal London:

Royal London is the largest mutual life, pensions and investment company in the UK and Ireland with group funds under management of over €128.3 billion. Group businesses provide around 8.8 million policies and employ 3,637 people (figures quoted are as at 31 December 2017).

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

Sources:

* Central Bank, Residential Mortgage Arrears and Repossession 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

** Residential Mortgage Arrears and Repossessions Statistics: Q4 2017
https://www.centralbank.ie/docs/default-source/statistics/data-and-analysis/credit-and-banking-statistics/mortgage-arrears/residential-mortgage-arrears-and-repossessions-statistics-december-2017.pdf?sfvrsn=4

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

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