

“On the Edge”

Impact on Homeowners of Changes to Interest-Only Mortgages

February 2013

About HomeOwners Alliance

The HomeOwners Alliance is Britain's only group championing the interests of 17 million homeowners and 5 million aspiring homeowners

We are a member-led organisation, representing homeowners in the media, lobbying for their interests in government, providing quality services and campaigning against bad practices in industry. The former Housing Minister Grant Shapps MP said that *“the HomeOwners Alliance is good news for homeowners and for homeownership”*. Sunday Times wrote *“with the launch of the HomeOwners Alliance, British property owners finally have an ally.”*

Research Background & Context

Background: method, sample, survey topics

- Research issues include:
 - Incidence of interest-only mortgages
 - Response to changes to interest-only mortgages
- Market data sourced from Office of National Statistics, 2011 UK Census
- Homeowner reaction to changes to interest-only mortgages drawn from HomeOwners Alliance survey via UK YouGov online panel
 - Total sample size was 2056 adults;
 - Data weighted and representative of all UK adults (aged 18+)
 - 1393 homeowners were asked about mortgages
 - 162 interest-only mortgage holders asked about changes planned
 - Fieldwork was undertaken between 18th-21st January 2013

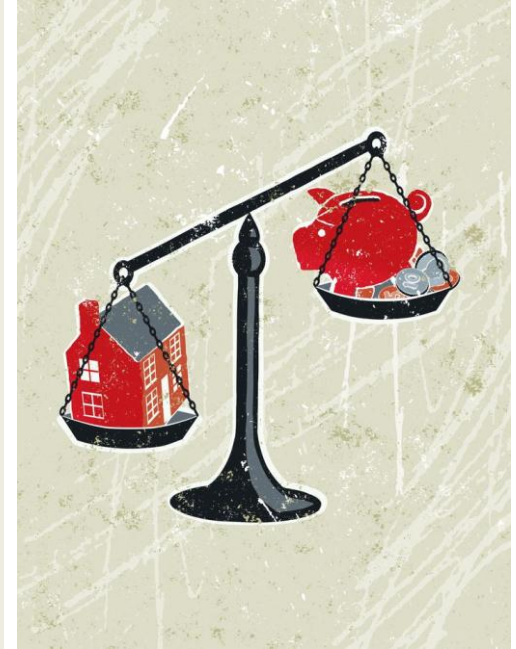
Context: explanation of changes to interest-only mortgages

- HomeOwners Alliance presented changes to interest-only mortgages as follows...
 - *“The Financial Services Authority introduced stricter regulations on interest-only mortgages from 2013. These stricter regulations mean that borrowers with interest-only mortgages will find their future options limited, and thus an increase in monthly costs. They will need to show proof of an acceptable repayment vehicle (equity ISAs, pensions, endowments) if they wish to shop around and switch providers. With their existing provider, they may be subject to uncompetitive rates. How worried, if at all, are you about how the stricter lending criteria for interest-only mortgages will affect you?”*

Summary of Findings

Changes to interest-only mortgages will push many homeowners to the edge of what they can afford to keep their home

- 12% of homeowners have an interest-only mortgage
- Most interest-only mortgage holders (60%) are worried about how planned changes will affect them (25% very concerned)
- Over a third of those worried (35%), report they will no longer be able to afford their mortgage payments
- A quarter of those worried (24%), fear they will have to sell their home to repay their mortgage



Nearly 300,000 homeowners fear they will have to sell their home to repay their mortgage

The story in numbers...

26,400,000 households in the UK
17,160,000 homeowners
2,059,200 homeowners with interest-only mortgages
1,235,520 with interest-only & worried about changes



Nearly 300,000 (296,525) fear they will need to sell to repay
Over 400,000 (432,432) worry they will no longer afford mortgage

Source data for calculations:

- # of UK households (Office of National Statistics)
- 65% of households own their home (UK Census)
- HOA survey data via UK YouGov online panel:
 - 12% of homeowners have interest-only mortgage
 - 60% worried about planned FSA changes
 - Of those worried, 24% fear they will need to sell to repay their mortgage and 35% worry they can no longer afford mortgage payments

Stories from those hit by changes to interest-only mortgages

*“Our mortgage term ends in 2 years, we have been told we could have an extension of 5 years with up to £1,000 in extra payments a month. My husband is over 60 and this is impossible, we are worried sick and at our wits end. We are also in negative equity... **we planned to stay in our current property 2 years...now, we will be homeless**”*

“I don’t seem to have much choice but to sell eventually”



*“It is a disgrace that my endowment policies taken out 28 years ago with Abbey National Life and Friends Provident never performed and now face being unable to pay off the capital in 2019 on my mortgage for the home I have lived in and loved for 35 years. **It is a ticking time bomb for millions of older people like me.** We should be allowed to keep our homes and the interest we have paid for 25-plus years converted into capital and the loan forgiven by our lender.”*

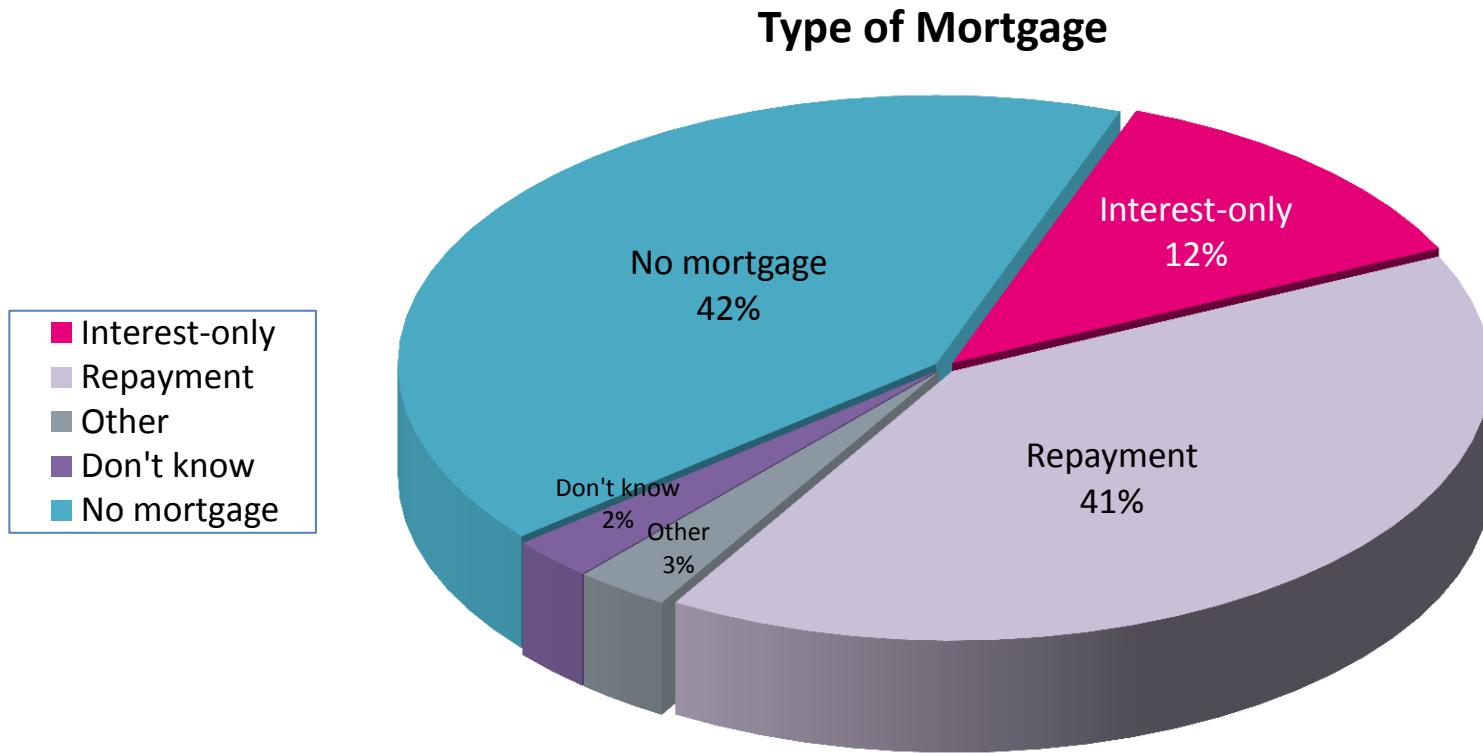
Interest-Only Mortgages: What are my options now?

If your interest-only mortgage term is coming to an end, what do you do next?...

1. Speak to your existing mortgage lender about your current interest-only deal and when it is due to end
2. Ask your lender to extend the mortgage term to give you more time to build your investment. Overpaying for the rest of the term of your interest-only mortgage will help reduce the loan to value
3. Ask your current lender what mortgage deals are available to you and then assess against what else is available in the open market. A mortgage broker with a whole market view is a good place to go for advice
4. If you can afford a higher monthly cost, consider remortgaging to a repayment loan, so you pay back some of the capital as well as the interest each month
5. Consider whether downsizing is a real option. Any profit generated could help make repayments on a mortgage more manageable
6. Using the equity in your home, if you are over 55, is an option to explore as a means for repaying a mortgage. Do seek advice on any risks involved

Research Results

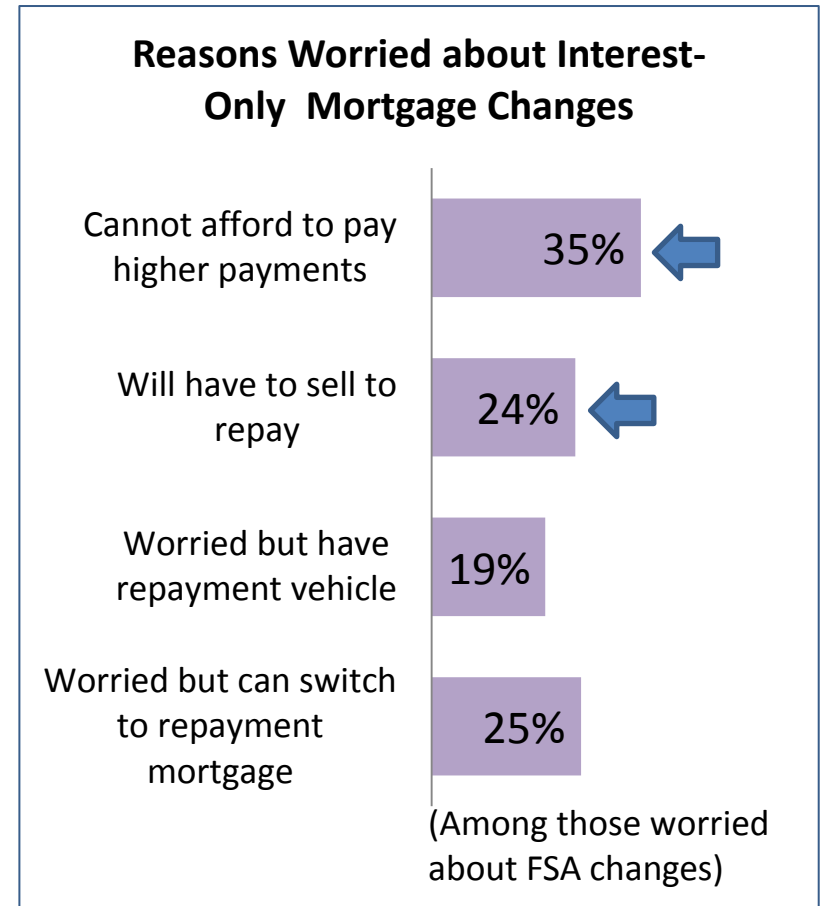
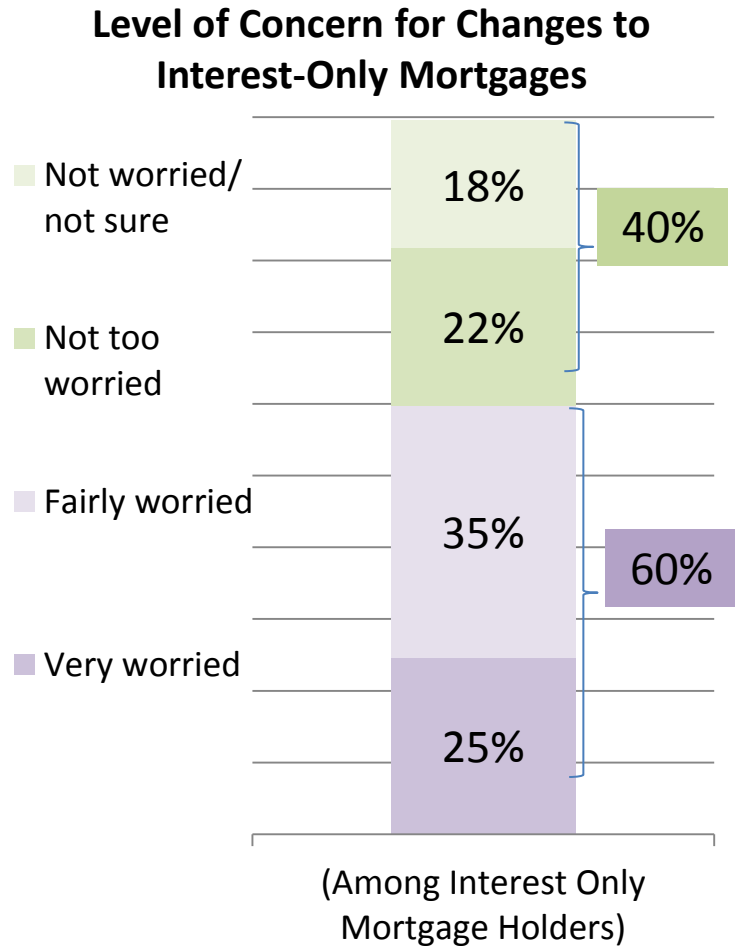
12% of homeowners have an interest-only mortgage



% of UK homeowners

(Source: HomeOwners Alliance survey via YouGov online panel)

Among interest-only mortgage holders 60% are worried about new FSA regulations – affordability is an issue



Source: HomeOwners Alliance survey via YouGov online panel

Changes to interest-only mortgages raise fears with those nearing retirement age

Reasons for concern over changes to interest-only mortgage:

Retirement age restrictions

“Age restriction to extend terms prevents us reverting to repayment now”

“As an OAP with a small interest-only mortgage I am unlikely to be able to find an alternative and will seek to repay the balance before the end date”

“As we are all expected to work for longer, mortgages should be available for people over the current retirement age”

“Our mortgage term comes to an end in 2 years, we have been told we could have an extension of 5 years with up to £1,000 in extra payments a month. My husband is over 60 and this is impossible, we are worried sick and at our wits end. We are also in negative equity, we had bought at the height of the market, then came the crash. We had planned to stay in our current property 2 years, and with the equity and price rises we could then downsize and reduce our mortgage. Now, we are going to be homeless.”



The economic downturn is adding pressure

Reasons for concern over changes to interest-only mortgage:

Impact of economic downturn:

"I got the mortgage at a time where both my wife and I were earning more money. We were hit badly by the financial crash of 2008 and have only just started to recover our situation. We still cannot afford most lenders criteria and are stuck with our current lender."

"I have a rental property and don't know how I will manage to remortgage, they aren't selling as others are for sale, so what do I do?"

"I'm affected by the state of the economy enough already"

"Because of increasing prices on everything, and minimum wage not increased yet, I worry that I might have to remortgage my house in the future"

"Don't seem to have much choice but to sell eventually"



There are frustrations with government interference

Reasons for concern over changes to interest-only mortgage:

Frustrations with government intervention:

“Government interference...should let the market sort it out. Nothing wrong with past system”

“I don't think it is right that the average person has had to bear the brunt of this downfall in the economy!”

“It is my intention to downsize at some point in the future. it was never my intention to fully pay off the mortgage on my current property and I am comfortable with this decision. I do not need interference from the FSA on this matter as any rules they bring in will undoubtedly cause problems where none currently exist.”





There are criticisms of mortgage practices

Reasons for concern over changes to interest-only mortgage:

Frustrations with mortgage lending policies/ practices

“I have joint mortgage with my husband. We have investment to cover half of the loan plus other saleable assets which would cover the remainder. These will not be taken into account so we are stuck with our current mortgage lender even though we have an excellent credit rating.”

“I think that banks should have been stricter and insist on some sort of policy running alongside an interest-only mortgage rather than just letting borrowers pay interest-only. A lot of people will end up selling their homes because of this.”

“It is a disgrace that my endowment policies taken out 28 years ago with Abbey National Life and Friends Provident never performed and now face being unable to pay off the capital in 2019 on my mortgage for the home I have lived in and loved for 35 years. It is a ticking time bomb for millions of older people like me. We should be allowed to keep our homes and the interest we have paid for 25-plus years converted into capital and the loan forgiven by our lender.”

“Mortgage companies should help people transition to repayment mortgages with sensible rates.”

Those less concerned have repayment plans in place

Reasons not concerned about changes to interest-only mortgage:

I have been overpaying for years so as to clear the capital

It was intended to be temporary; we have enough money to pay it off

Happy with my provider and have arrangements for repayment

Have endowment policy in place

12 years before I retire, in which time I hope my property will have gone up in value, I then hope to sell, and let the council house me

My mortgage is small in comparison to value of endowment policies

I have a pension scheme with a fixed cash option to repay the mortgage

I have an adequate repayment vehicle.

I have an insurance policy to cover the capital borrowed.

My mortgage deal is 0.25% above the Bank of England interest rate for the lifetime of the mortgage, with no penalties for overpayments

I have a lifetime tracker mortgage at 0.99% above base rate. It does not expire until 2026, long after I shall have died.



Others less concerned have nearly paid off their mortgage

Reasons not concerned about changes to interest-only mortgage:

I'm near the end of my mortgage borrowing life

Our short term interestonly mortgage due to be paid off this year

I don't owe very much and can afford to pay it off

I have been paying off the remaining amount and will clear this when I retire in about 2 years

I have nearly paid off my mortgage

Paid off most of my mortgage using savings and a compensation payout

I only have 17 months left to pay

Only 3 years left to pay off. Overpayments have been made every month so the amount owing is negligible

My mortgage will be totally paid off (capital plus interest) in two months

Only a few years left before mortgage ends and we have funds to pay it

Only have a very small mortgage



Conclusion

- **Most interest-only mortgage holders (60%)** are worried about how planned changes will affect them
- Over a third (35%) of them cannot afford an increase in payments. Almost one in four (24%) - **believe they will need to sell their home**
- Options are even **more limited for older people** – they need help and more options or else they will be forced from their homes
- At www.hoa.org.uk – **we're on your side** – lobbying for the interests of homeowners