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PROPERTY FINANCE EXPERTS

COVID-19: Should borrowers go on a 'Mortgage Holiday'?

During the last few weeks we have seen an unprecedented response from the government to help mortgage borrowers during the COVID-19 outbreak. In a constantly changing environment banks are under increasing pressure to make changes to technology systems and re-direct their work force to assist borrowers who find themselves in financial difficulty through no fault of their own.

What is a mortgage payment holiday?

A mortgage payment holiday is an agreement between a borrower and the lender allowing the borrower to stop or reduce monthly mortgage payments for a set period of time without breaching the mortgage contract.

Whilst this is not a new concept within the mortgage world, in a recent policy announcement by the chancellor the government has asked all mortgage lenders to make this facility available to eligible mortgage borrowers for a period of at least 3 months.

Who is eligible for a mortgage payment holiday?

All homeowners (with a current mortgage not already in arrears), who are concerned about their ability to meet their monthly mortgage payments are eligible.

The government, through the Financial Conduct Authority (FCA) have issued guidance to lenders requesting them to grant home borrowers a 3 month payment holiday without the need for proof that they have been financially affected by COVID-19 or any other documentary evidence which they would normally request eg personal financial forecasts.

A payment holiday will also be available to all Buy-to-Let landlords whose tenants have lost income because of the impact of COVID-19. This is on the understanding landlords are expected to pass on this relief to their tenants to ensure that they are supported during this time. Similar to residential mortgages, borrowers must be up to date with their payments and not in arrears.

Buy-to-Let landlords will need to self-certify that their tenants' income has been impacted and that they are having difficulty paying the rent due to COVID-19.

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How to apply for a mortgage payment holiday

Borrowers **must** contact their lender **directly** if they think they may potentially experience payment difficulties with their home mortgage as a result of COVID-19.

Under guidance from the FCA lenders should not request any evidence that a borrowers' income has been affected by COVID-19.

All lenders are working hard to set up systems and processes to allow for mortgage borrowers to take mortgage payment holidays, however their employees may also be affected by COVID-19 and hence it may take time for borrowers to get in contact with their lender.

Each lender will have their own unique system and process for applying for a mortgage payment holiday and majority of them have detailed information on their websites.

Pros of a mortgage payment holiday

The biggest positive is the **temporary** release of pressure on a borrowers' monthly finances/cashflow. Consequently, this is likely to also release some of the personal stress that borrowers may be feeling during this unprecedented time.

Cons of a mortgage payment holiday

There are a number of important points to bear in mind:

- During a mortgage payment holiday borrowers will continue to incur interest on their mortgage balance;
- Borrowers will still owe the amounts that have accrued during their payment holiday
- If a borrower has a repayment mortgage when the payment holiday comes to an end their outstanding mortgage balance will be higher and their lender may increase future monthly payments to pay for the payments deferred;
- Lenders may not permit a borrower to switch between mortgage products during the mortgage payment holiday period.

Some key points

- The FCA have issued guidance requesting that lenders should ensure that taking a mortgage payment holiday **does not** affect a borrowers' credit score;
- Borrowers who are currently in mortgage payment arrears **may** also be able to agree with their lenders a mortgage payment holiday. Each lender will have their own policy on this;
- Depending on a borrowers' financial position the lender may also offer other options which may suit their personal circumstances;

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- During the current COVID-19 period lenders have been requested by the government **not** to commence or continue repossession proceedings
- At the end of the borrowers' mortgage payment holiday the lender should contact the borrower to discuss their financial position and agree a repayment plan for the future which may include a further payment holiday depending on the borrowers' personal circumstances

What should borrowers do now?

It is critical that borrowers have the best possible understanding of their financial/cashflow circumstances. A monthly cashflow (for the next 6 to 12 months) of their income and personal expenses/outgoings will help them understand whether they are likely to need a mortgage payment holiday.

Once a borrower has their cashflow analysis and feels anxious about their future mortgage payments then the next immediate action should be to access the lenders' website for guidance on how to apply for a mortgage payment holiday.

Lenders are keen to help their borrowers in this current climate and should not request any detailed information from them, however if borrowers are well prepared with relevant personal information then they will be able to have a detailed discussion with the lender about their personal financial position and agree the right course of action for their personal circumstances.

The above information is our understanding of the position as at 30th March 2020. Both the government and lenders are introducing changes on a regular basis.

If you are currently looking for a residential mortgage or to refinance your existing mortgage and would like to discuss your personal position please contact the Kinnison team at www.kinnison.finance or directly at e: info@kinnison.finance

Your home or property may be repossessed if you do not keep up repayments on a mortgage or any debt secured upon it.

Through our partnership with the ICAEW we have a dedicated mortgage advisory service for ICAEW members, through Kinnison Limited, offering our bespoke service at a significantly discounted fee structure.

For mortgages below £750,000 our typical fee is £498 (£199 payable on application and £299 on completion). For more complex cases and mortgages above £750,000 our typical fee is up to 0.6% of the mortgage amount. Of this, 20% is payable when you receive your mortgage offer and the balance of 80% on completion. For example on a mortgage application of £800,000 the fee would be £4,800 in total. Of this, £960 (20%) would be payable on issuance of your mortgage offer and the balance of £3,840 (80%) on completion. The total fee is non refundable. We may also be paid commission from the lender.

These fees apply to mortgages regulated by the Financial Conduct Authority. The Financial Conduct Authority does not regulate most buy-to-lets, commercial lending and some bridging finance. Fees for non-regulated mortgages will vary depending on your requirements and individual circumstances.

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