



# **Arrears on housing loans**

Your rights and options

When you need to give your family home as security for a loan, you are in effect taking out a mortgage on it. Mortgages are often called housing loans, as your house is part and parcel of the agreement. You should recognise that defaulting on your payments or otherwise breaking the terms of the agreement can mean that your house will be repossessed. So, taking out a housing loan is a major commitment.

Though most of us have to take out a mortgage to buy a property, the credit boom has resulted in more and more people taking out further smaller loans to do home improvements or pay for other purchases. Many of these are also mortgages – though for a smaller amount and generally over a shorter term – because the lender holds the family home as security. Again taking on this type of loan is a major commitment as default runs the risk of repossession.

### **If it looks like I won't be able to pay the full amount what should I do?**

Contact your lender as early as possible, preferably before the difficulties actually begin. If you are due to be laid off, for example, let your building society or bank know as soon as you can. All major mortgage lenders have signed up to the "Irish Bankers' Federation

Code on Mortgage Arrears" that aims to treat arrears or potential arrears sympathetically and realistically. Remember, if you don't tell them about your changed circumstances they won't know. Explain your situation openly and honestly.

### **What if my account is already in arrears?**

Again, let your lender know that you are having difficulties – experience shows that ignoring things in the hope they will go away is the worst thing you can possibly do. Before you talk to them, first draw up a budget showing your income, expenses and credit commitments. Any proposals you make should be based on this. You can get a sample budget sheet listing a number of common items of spending from any MABS office or from our website, [www.mabs.ie](http://www.mabs.ie), if you feel it would help.

Then you should send a copy of your budget together with a letter outlining your household circumstances and explaining the reasons for your difficulties (illness, drop in income, increase in expenditure or whatever), to the lender and ask them to consider proposals based on your changed circumstances. In this way you are putting the ball back in their court while being open and reasonable.

## What options are possible?

There are a number of possibilities depending on the circumstances.

### **Insurance claims**

Your mortgage may be covered by payment protection. If so, claim as early as possible to avoid missing any time limits stated in the policy.

### **Maximise your income**

Check you are getting all your social welfare and tax entitlements. Your local Citizens Information Centre will be able to help you (your local telephone directory contains details of the Centre nearest you). There may be other ways of maximising income, letting a room for example with the lender's permission.

### **Pay extra each month on top of your mortgage repayments**

Work out what you can afford first given your other commitments and approach your lender on this basis.

### **Ask the lender to add your arrears to your mortgage**

When you have created a pattern of payments (by making your payments weekly or fortnightly instead of monthly you can do this much quicker), your lender may be willing to add the arrears onto the balance of your mortgage. However, your repayments increase for the remaining lifetime of the mortgage.

### **Increasing your mortgage term**

If your mortgage has 12 years left to run, your lender may be willing to extend this to 20 years for example. Although your monthly payments will decrease, in the long run you will pay more than you otherwise would have done. There may be costs involved, so extensions of a few years may not be worth your while.

### **A payment break**

Your lender may be prepared to give you breathing space to allow for circumstances to improve, if your difficulties are only likely to be short term.

### **Interest only payments**

Again, if your problems are hopefully short term, the lender may be willing to accept just the interest part of the payment. This is only likely to benefit you if you are some years into a straightforward repayment mortgage.

### **Switching loans**

It may be possible to change from an endowment to a repayment mortgage. If you give up your endowment policy, you may get a lump sum that you could use to reduce arrears. Again there may be costs involved.

### **Switching rates**

As mortgage rates have come down in recent years, some borrowers can pay higher interest charges on older mortgages taken out on 'fixed' rates. Changing to cheaper variable rates may be an option, but switch fees and penalties may mean this option is not as attractive as it first seems.

## **Consolidation loans**

You may have the option of a re-mortgage with either your existing lender or an alternative company. With a re-mortgage, outstanding loans and the original mortgage are grouped into one new loan. This option can seem attractive on the face of it because it lowers the total of your various instalment payments in the short term. But, in the long term it is a huge step that has several potential downsides. See our leaflet on re-mortgaging before you consider this option.

**Warning: your home is at risk if you do not keep up repayments on a mortgage or any loan secured on it.**

## **Selling your home or trading down**

The difference between the value of your house and the amount that you owe your bank and building society is called the equity in your property. If your arrears are increasing and you are unable even to meet the basic mortgage payment, the equity will go down all the time. You may end up with very little to spare or even negative equity if you still owe the lender money even after your house is sold.

If there is little hope of finding a solution to your current mortgage and maybe other difficulties you may need to consider selling your house or trading down. This way you at least can find suitable alternative accommodation.

## What if, the lender takes action against me?

One of the above may still be an option, but instead of dealing with the credit institution alone, you will now need to explain your circumstances to the lender's solicitors and the court itself. This is normally best done by letter, accompanied by a budget sheet showing details of your income, outgoings, credit commitments and proposals for repaying your mortgage arrears.

If you need help on how to go about this, please visit our website, [www.mabs.ie](http://www.mabs.ie), or contact your local MABS for an appointment to speak to a Money Adviser in confidence.

### Disclaimer

Every effort has been made to ensure that the information contained in this leaflet is accurate, but the Department of Social and Family Affairs accepts no legal responsibility for any errors or omissions contained in it. If you have a specific legal query relating to matters raised in this leaflet you should get detailed legal advice.



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