Mortgage payment holidays: What happens now?

Your next steps guide

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Mortgage payment holidays officially end October 31st, 2020. This guide will help you understand your next steps once the deadline passes and who to talk to if you need support.

If you're looking at this post deadline – don't worry this information is still relevant and worth a quick read.

What’s your current situation?

If you’re struggling financially, don’t panic. Lenders are continuing to offer a range of options to help borrowers through this difficult period. From extending your mortgage term, to switching you to an interest-only loan, they’ll work with you to try to find a solution.

If you find yourself struggling to meet your monthly repayments or are worried about what will happen when your mortgage payment holiday ends, it is important that you get in touch with your lender as soon as possible to discuss your options.

Read on to make sure you’re prepared for that conversation. Remember your advisor can help clarify and answer any questions you may have.

Remind me how the payment holidays worked.

Mortgage payment holidays were introduced in March, shortly after the UK entered lockdown, to help people who had suffered a short-term drop in their income due to the coronavirus pandemic.

If you took a payment holiday, you could defer your mortgage payments for up to three months without your credit record being impacted.

Under the scheme, interest that would have been paid was added to the outstanding loan, and borrowers will need to make up their missed payments at some point.

The payment holidays were open to anyone who was not in mortgage arrears, and borrowers could self-certify that their finances had been affected. Nearly 2 million homeowners took advantage of the scheme, with the initial three-month period for the holidays extended until the end of October.

What happens when the payment holiday is over?

As the scheme comes to end, if you were on payment holiday you will automatically be switched back to making full monthly repayments.

You're also likely to see a slight increase in the amount you pay each month, as a result of the interest payments you missed being added to your mortgage.

For example, a borrower with a £100,000 mortgage at an interest rate of 2.75% being repaid over 20 years will see their monthly repayments increase by £6.16 a month if they took a two-month payment holiday.

But lenders have been clear that just because the mortgage payment holiday scheme is ending, this does not mean support is being withdrawn, and they'll continue to work with customers who are experiencing financial difficulties.

What options are lenders offering?

Broadly speaking, lenders are offering four main options if you're unable to make your monthly repayments in full. These options are available if you have previously been on a mortgage payment holiday or if you find yourself facing financial difficulties for the first time during the pandemic.

1. Extending your mortgage term

One option that lenders are offering is extending the length of your mortgage term to help reduce the size of your monthly repayments. For example, if you have a £200,000 mortgage on an interest rate of 2.5%, increasing the mortgage term from 10 years to 20 years would reduce your monthly repayments from £1,886 to £1,060.

While extending the mortgage term can make monthly repayments more manageable, it is important to understand that it will lead to you paying more interest overall. In the example above, the total amount of interest paid by the time the mortgage is repaid in full would be £54,379, compared with £26,260 on a 10-year term.

2. Switching to an interest-only mortgage

Another option is for you is to be temporarily put on an interest-only mortgage. Making payments that cover only the interest, and do not reduce the outstanding sum borrowed, can significantly reduce the size of your monthly repayments.

On a £200,000 loan with an interest rate of 2.5% and a term of 20 years, moving from a repayment mortgage to an interest-only one would cut monthly payments from £1,060 to £417.

But the change to an interest-only mortgage is likely to be only for a set period of time until you get back on your feet, as you will still need to repay your loan in full eventually.

3. Making part payments

Lenders are also willing to accept part payments if you cannot afford your full monthly repayments but can still pay something.

These may take the form of covering the interest owed and a proportion, such as 50%, of the usual capital repayment.

If you can afford them, part payments are a better option than moving on to an interest-only mortgage, as you will still be reducing the overall amount you owe, meaning you will pay less interest over the term of your loan.

4. Deferring payments

In certain circumstances, such as if your income has been temporarily impacted because you live in an area that has been put into the Government's tier 3 lockdown, lenders will also consider deferring your monthly payments.

But as with the mortgage payment holiday, these payments will need to be made up at some point and outstanding interest charges will be added to the overall amount that you owe.

How do I weigh up what to do?

When weighing up what you should do, think about whether your financial situation has improved or worsened since you first arranged a mortgage payment holiday.

If it has improved, it is usually a good idea to resume mortgage payments in full if you can, or at least make partial capital repayments.

If your finances have got worse or you're experiencing difficulties for the first time, think about whether the situation is likely to be short-term, such as if your income has been hit temporarily due to a local lockdown, or whether it is more long-term, such as if you have been made redundant.

Any solutions lenders agree with borrowers have to be sustainable, so the options available to you will be different depending on whether your loss of income is likely to be short-term or longer-term.

Either way, it is important to get in touch with your lender or advisor as soon as possible and before you have missed a payment.

While lenders want to help, options are more limited for borrowers who are already in arrears.

What if I’m about to miss a payment or am already in arrears?

If you have a mortgage payment coming up that you know you will not be able to meet, don’t ignore the problem.

Contact your lender immediately to see if you can get a temporary payment deferral while you work out a longer-term plan together.

If you’re already in arrears, it is still important to talk to your lender or advisor.

While your options are likely to be more limited under these circumstances, lenders will still work with you to try to find a way forward.

I'm concerned about what to do next

If you're worried you can no longer afford your mortgage repayments or just want help thinking through what you want to say to your lender, contact us. We're here to help.