



the Money  
Advice Service

# Dealing with your endowment mortgage shortfall



- ➔ The options available
- ➔ Things to consider
- ➔ Helping you stay on track

The **Money Advice Service** is independent and set up by government to help people make the most of their money by giving free, impartial advice. As well as advice about mortgages, we offer information on a wide range of other money topics.

Visit our website today for advice, tips and tools to help you make informed decisions and plan for a better future.

 [moneyadvice.service.org.uk](https://moneyadvice.service.org.uk)

**Free impartial advice**

 on the web

 on the phone

# Here to help you

## This guide is for you if you're relying on an endowment policy to repay your mortgage and you've received a shortfall letter.

Lots of people are facing a shortfall on their endowment mortgage because their endowment policies haven't produced the results needed. Act now and it will save you money in the long term.

Follow the steps in this guide to take control of your situation.

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**You have several options to deal with or prevent a shortfall on your endowment mortgage – act today.**



# First things to do

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## Key actions for taking control



1

### Talk to your lender

If you know you are heading for a shortfall talk to your lender. There are several options that may be open to you, and these are explained in this guide.



2

### Make a plan

If you are relying on your endowment policy or other investments to repay your mortgage and you have a shortfall, work out how you are going to deal with it – for example by switching to a repayment mortgage.



3

### Work out a budget

This will help you see how much extra, if anything, you can afford each month towards the shortfall.

Use our online **Budget planner**.

 [moneyadvice.service.org.uk/budgetplanner](https://moneyadvice.service.org.uk/budgetplanner)



4

### Keep checking you are on track

Regularly review any savings, investment or pension plans you have if you are planning to use them to repay your mortgage. Get an up-to-date statement, at least once a year, from your provider.



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## Practical advice

- ➔ Act now! The longer you delay, the higher the cost of making up the shortfall.
- ➔ To help you get your finances back on track, use our online tools like our **Mortgage calculator**, **Savings calculator**, **Budget planner** or **Money health check**. Search for these tools on [🔍 moneyadvice.service.org.uk](https://moneyadvice.service.org.uk)
- ➔ Talk to a financial adviser before cashing in your endowment or stopping any other financial plan as a way of raising funds to reduce your mortgage capital – otherwise you could lose out financially.



### Important

At the end of your mortgage term your mortgage must be paid off. If you can't repay your mortgage when it becomes due you are at risk of losing your home.

# What to do if you received a shortfall letter

## → Endowment mortgages

You've got an endowment policy and have received a shortfall letter – also known as 'reprojection letters'. Read it carefully as it will tell you if your plan is likely to pay off your mortgage.

These letters use a traffic light system and will be marked:

- **red** if there is a **high risk** the policy is not on track
- **amber** if there is a **significant risk** it's not on track
- **green** if it's **currently on track** to repay your mortgage.

They also tell you:

- the amount of any projected shortfall
- the options open to you, and
- what further action you need to take.

Endowment policies are linked to investments such as bonds and shares, which can vary in value. So **you need to check each reprojection letter**, even if the policy has been on track so far.

## How interest-only mortgage shortfalls occur

With an interest-only mortgage, you pay off only the interest charges but not the mortgage itself (the amount you borrowed – the capital). Most people will have taken out an endowment policy, pension or other investment to pay off the mortgage at the end of the term.

If the investments you intended to use to repay the mortgage haven't produced the results needed you could find yourself facing a shortfall on the amount you owe.

- ➔ If you've got a shortfall, you'll have to meet this out of your own money to pay your mortgage capital on its due date.
- ➔ Check your investments regularly to make sure they are on target.

# Ways to make up a shortfall

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If you need to make up a shortfall or want to reduce the chance of one happening there are different approaches you can take. Some offer more certainty than others that you will be able to pay off your mortgage capital.

There are three main ways to make up a shortfall. You can:

- make changes to your mortgage
- make changes to your endowment or other repayment plan
- start a new saving or investment plan.

Your lender may allow you to make these changes, but you need to be sure that they are right for you. It's a good idea to get professional financial advice about any changes you are thinking about.

**Read on to check the pros and cons of each and find out which one might be suitable for you.**



## → Changes you can make to your mortgage

Possible change	Pros, cons and questions
<b>Convert the projected shortfall to a repayment mortgage</b>	<ul style="list-style-type: none"> <li>✗ Your monthly payments will increase</li> <li>✓ The shortfall will be paid off by the end of the term if you keep up the payments</li> <li>✓ If the shortfall grows you could switch more of your loan to a repayment mortgage</li> <li>✓ Should be simple and easy to arrange</li> </ul>
<b>Switch your whole mortgage to a repayment method</b>	<ul style="list-style-type: none"> <li>✓ Your mortgage will be paid off in full at the end of the term if you keep up the payments</li> <li>✗ If you cash in your investment you could lose out financially, and you may need to arrange other insurance cover</li> <li>✗ Your monthly payments will increase (the longer your mortgage has to run the smaller the increase)</li> <li>✓ If you can afford it, and if your plan is doing well, you could carry on using it for saving to provide a lump sum on maturity. Some investment products include useful insurance cover</li> </ul>
<b>Make lump sum or regular overpayments</b>	<ul style="list-style-type: none"> <li>✓ Will reduce what you owe and what you need your investment, savings or pension plan to cover</li> <li>✓ May be cheaper than saving separately to pay off the shortfall in the future</li> <li>? Ask about early repayment charges</li> </ul>

**Making one of these changes to your mortgage probably gives you the lowest-risk way of making up a shortfall.**

## → Your questions answered

### How much will I have to pay monthly if I switch to repayment?

As an example, a loan repayment of a mortgage of £100,000 and an interest rate of 3.5% with 15 years to run will cost you £712.88 a month subject to any additional fees or charges.

→ Use our **Mortgage calculator** to work out how much your payments would be at  
[moneyadvice.service.org.uk/mortgagecalculator](https://moneyadvice.service.org.uk/mortgagecalculator)

### How can I reduce the monthly payment?

Extending the term of your repayment mortgage by five years could lower your monthly payments. A £100,000 mortgage with 20 years to run at 3.5% interest would be £579.96 a month. This is £132.92 a month less. But, remember that it will cost you more over the term of your mortgage.

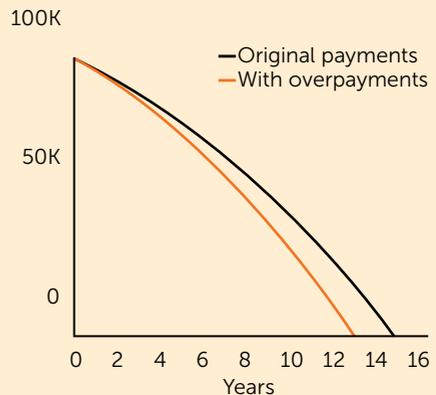
### What is the overall effect of extending the term?

The benefit is that it will limit the increase in your monthly payments, but it does mean it will cost you more over the term of the mortgage – £10,872 in this example.

## The benefits of overpaying your mortgage

Overpaying reduces future interest and can mean you are mortgage free much sooner.

On a £100,000 mortgage at 3.5% with 15 years remaining, paying an extra £60 a month reduces the interest by £3,068 and means you repay 18 months earlier.



The figures mentioned in the example here and on pages 8 and 12 are for illustration only.

**If you want to switch to a repayment mortgage talk to your lender. The increase in payments may not be as much as you think and your lender may come up with a plan that can help you.**

## An example of how to make up a shortfall

**Helen, 48, has an interest-only mortgage of £50,000 linked to an endowment. Her mortgage has seven years left to run and the interest rate is 5.95%.**

### The problem

Helen got a **red, high risk shortfall letter** from her provider. She found out that her endowment may only pay £40,000, a shortfall of £10,000.

### The solution

To cut the risk of not being able to pay off the mortgage, Helen asked her lender to change £10,000 of her mortgage to the repayment method. She had to go through an affordability assessment to get this mortgage, but she arranged for the shortfall to be repaid over the next seven years.

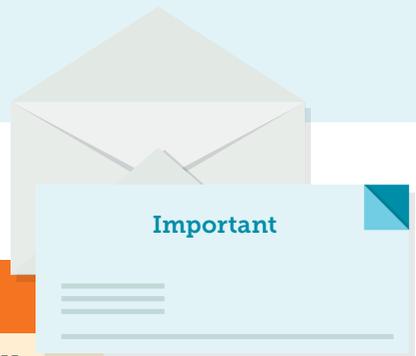
When the interest-only mortgage ends – now just £40,000 – she'll be able to pay it off if her investment produces the projected £40,000.

### The costs

Helen's monthly payment of £247.92 increased to £344.18 a month to pay for the extra repayment mortgage too.

### An alternative solution

If Helen couldn't afford the £344.18 a month, she'd need to ask if she could extend the term of the £10,000 repayment mortgage. Although she would pay less each month, she'd have to pay more in total.



## If you get a shortfall letter

If you are facing a shortfall don't delay – act now. Talk to your lender. Work out what your options are and take action to tackle the shortfall.

## → Changes you can make to your existing endowment plan

By paying more in and/or paying for longer you can build up a bigger fund to pay off your mortgage.

Possible change	Impact and questions
<b>Ask to extend the length of your plan</b>	<ul style="list-style-type: none"><li>✓ You'll put more in over time if you can't afford to pay more each month</li><li>✗ The longer the term the more interest you'll pay overall</li><li>✗ Your plan is still linked to the stock market so there's a risk it still won't grow enough to repay your mortgage at the end of the term</li><li>? You may face extra charges and a tax liability if you change the terms of your endowment policy. Get professional financial advice first</li><li>? You'll need to ask if you can extend your mortgage term to match</li></ul>
<b>Top up your plan by paying more each month</b>	<ul style="list-style-type: none"><li>✗ Your plan is still linked to the stock market so there's still a risk it won't grow enough</li><li>✗ You could be worse off than if you used the same amount to reduce your mortgage</li><li>? You may face extra charges and a tax liability if you change the terms of your endowment policy. Get professional financial advice first</li><li>? Some plans may not allow this option</li></ul>

### Key points

→ Extending your mortgage and any repayment plan isn't a good idea if it means having to pay it into retirement, unless you and your lender are sure you can afford it.

→ Never just cash in or stop paying into your plan without getting professional financial advice – you could lose out financially.

## → Start a new investment or savings plan

Adding a new plan gives you the chance to build up a bigger fund to pay off your mortgage.

Possible choices	Pros, cons and questions
<b>A cash savings account or cash ISA</b>	<ul style="list-style-type: none"><li>✓ The amount you get back doesn't depend on how well the stock market performs</li><li>✓ It's a good option for the short term, if for example, your mortgage is near the end of its term</li><li>✓ If you're a taxpayer you won't pay tax on the interest from your savings in an ISA (but there's a limit to what you can save each year)</li><li>✗ Cash products may not grow enough to meet the shortfall</li></ul>
<b>An investment (stocks and shares) ISA</b>	<ul style="list-style-type: none"><li>✓ Potentially a good way of saving. Historically, over the longer term stocks and shares have grown more than cash savings</li><li>✓ Taxpayers can avoid paying tax on any profits (but there's a limit to what you can invest each year)</li><li>✗ It's linked to the stock market so the value of your investment could go down as well as up. There's no guarantee it will grow enough to meet the shortfall</li><li>✗ It's a long-term product and may not be suitable if you've only got a short time to build up a lump sum</li></ul>

### Key points

- Speak to your mortgage lender to discuss the choices available to you.
- Some options won't be suitable if you only have a short time to make up the potential shortfall.
- Investments give you less certainty that you'll meet a shortfall than using cash savings or paying capital off your mortgage.
- Overpaying your mortgage payments is likely to be better value in the longer term.

# The secret of successful saving

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## ➔ Set a clear goal

It helps if you name it, for example 'house fund'



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## ➔ Plan how you will get there

To help you work out how to meet your savings goal use our **Savings calculator**



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## ➔ Achieve your goal

People who set a savings goal save faster than those who don't



Search for 'Savings goal' at  
[moneyadvice.service.org.uk](https://moneyadvice.service.org.uk)

  
the Money  
Advice Service

# If your mortgage is ending with a shortfall

When your investment pays out at the end of the term, pay all the money into your mortgage to find out exactly how much you still owe. Then talk to your lender as soon as possible.

You may have several options:

- you could **pay the shortfall from savings** you have elsewhere
- you could **sell your property** to repay the mortgage and buy a cheaper property so you don't need a mortgage
- you could discuss a **new repayment period**.

The quickest way may be to carry on with your previous monthly payments. If money is tight you may be able to agree lower payments over a longer time.

Extending the term into your retirement is not a good idea unless you're sure you can afford it, and you might have to meet the lender's affordability criteria when arranging new mortgage payments.

In general, provided you keep up the new agreed mortgage payments, you should not lose your home as a result of the shortfall.

## An example

Joe has come to the end of his mortgage. His interest rate is 5.95% and he's been paying £154.48 a month. Joe is due to retire in seven years.

### The problem

Joe is left owing his mortgage lender £8,000.

### The solution

Joe could carry on with his current monthly payment of £154.48. This would repay the remaining capital and interest in five years, and would cost £9,268 in total, but this is more than Joe wants to pay every month.

### An alternative solution

Joe has agreed with his lender that he'll repay the £8,000 over seven years and his monthly payment will be £116.68. This will cost him £9,801 in total.

# If you are about to retire and have a shortfall

**Pay off what you can then talk to your lender. Often once you reach retirement it's harder to keep up the repayments as your income is usually much lower.**

## → Your options if you can't afford repayments on a shortfall

### **Use a lump sum from your pension**

You can now take all or part of your pension fund as a cash payment and this may help pay off any shortfall. It's important to get professional advice before you choose this option as there may be tax implications and you will also want to make sure you have enough to live on in retirement.

### **Downsizing**

You could sell your property to repay the mortgage and buy a cheaper property so you don't need a mortgage.

### **Equity release schemes**

You could consider a scheme where you release equity that you have built up in your home. Options to think about could be a home reversion plan or lifetime mortgage where you:

- sell all or part of your home in return for a cash lump sum to repay your existing mortgage and you can continue to live in your home for as long as you wish, or

- secure a loan on your home, where interest can be rolled-up and is repaid usually when you die or go into long-term care.

## → The pros and cons of equity release schemes for pensioners

- ✓ You should be able to stay in your home
- ✓ You won't have to make up the shortfall
- ✗ Equity release schemes are complex and there are risks
- ✗ Schemes can be expensive and inflexible
- ✗ Your current or future entitlement to state benefits could be affected
- ✗ Any remaining equity will be eroded by the interest rolling-up so there may be nothing left when you die.

You should get professional financial advice from someone qualified to give advice on equity release schemes if you are thinking about this option – see *Useful contacts* on page 16.

For more on equity release schemes go to our website at

 [moneyadviceservice.org.uk/  
equityrelease](https://moneyadviceservice.org.uk/equityrelease)



# Mortgage affordability calculator



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Use our **Mortgage calculator** to find out what your monthly mortgage payments could be. This can help you work out how much you can afford to borrow.

Visit  [moneyadvice.service.org.uk/affordabilitycalc](https://moneyadvice.service.org.uk/affordabilitycalc)

# Useful contacts

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## Money Advice Service

The Money Advice Service is independent and set up by government to help people make the most of their money by giving free, impartial money advice to everyone across the UK – online and over the phone.

We give advice, tips and tools on a wide range of topics including day-to-day money management, savings, planning your retirement and for your future, as well as advice and help for life-changing events such as starting a family or losing your job.

**For advice and to access our tools and planners visit**

 [moneyadviceservice.org.uk](https://moneyadviceservice.org.uk)

**Or call our Money Advice Line on  
0800 138 7777**

**Typetalk  
1800 1 0300 500 5000**

## Free debt advice agencies

### StepChange Debt Charity

0800 138 1111

[stepchange.org](https://stepchange.org)

### National Debtline

0808 808 4000

[nationaldebtline.org](https://nationaldebtline.org)

## Finding financial advisers/planners

### Unbiased.co.uk

For mortgage brokers or independent financial advisers in your area.

[unbiased.co.uk](https://unbiased.co.uk)

### Personal Finance Society

For financial advisers in your area.

[thepfs.org/yourmoney/  
find-an-adviser/](https://thepfs.org/yourmoney/find-an-adviser/)

### Institute of Financial Planning

For help in planning your finances.

[financialplanning.org.uk](https://financialplanning.org.uk)

### MyLocalAdviser

For financial advisers in your area.

[mylocaladviser.co.uk](https://mylocaladviser.co.uk)

## Complaints and compensation

### Financial Ombudsman Service

0800 0 234 567 or 0300 123 9123

[financial-ombudsman.org.uk](https://financial-ombudsman.org.uk)

### Financial Services

### Compensation Scheme (FSCS)

020 7741 4100 or 0800 678 1100

[fscs.org.uk](https://fscs.org.uk)





## Dealing with your mortgage shortfall

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Money Advice Line **0800 138 7777\***

Typetalk **1800 1 0300 500 5000**

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\*Calls are free. To help us maintain and improve our service, we may record or monitor calls.

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