Money Adviser Pack Update October 2009 – Summary of main changes

Participating lenders – making borrowers aware of the comparable arrangements available
A live list of lenders participating in the scheme can be found at www.direct.gov.uk/hms. Since the scheme launched in April, Standard Life, GE Money, Bank of Ireland (including Bristol and West and the Post Office), National Australia Bank (including Clydesdale Bank and Yorkshire Bank), Kensington Mortgages and Basinghall Finance have joined the list of participating lenders. The website also lists the lenders who have committed to offer comparable arrangements to HMS. Borrowers who have mortgages with these lenders should be made aware of this and encouraged to discuss this as an option with their lender where appropriate.

Assessing income – what to do if someone is self employed?
If there any uncertainty regarding the monthly income because a homeowner is self-employed or has income generated from a business they will need to be referred to Business Debtline (BDL) on 0800 197 6026. A consultation with BDL will access their income accurately and enable the money adviser to complete the income and expenditure sheet.

5 months eligibility criteria – change in policy
The borrower must have been making an agreed level of payments to their lender over the five months prior to entering the scheme. These could be reduced or nil payments and it is possible for lenders to agree these payments retrospectively. This means that even if a client has missed a payment or payments they could be eligible for the scheme if the lender agrees to accept the missed payments.

Exploring forbearance options – the process
The lender must have explored all alternative forbearance options with the customer before offering HMS. As a money adviser, you will want to consider these options alongside HMS with the homeowner to establish which are available and viable options to pursue with the lender.

The borrower may or may not have already discussed forbearance with their lender before seeking money advice. The adviser will provide holistic money advice to assess the client’s situation and all viable options. If HMS is identified as an option, the adviser will look at the eligibility criteria to see whether the client is eligible. If they haven’t already done so, the homeowner will need to discuss alternative forbearance options with their lender before pursuing HMS. In order to avoid confusion, it is very important that the homeowner tells their lender very clearly that they:

- have completed an initial income/expenditure sheet indicating how much they can afford to pay on their mortgage;
- have discussed HMS with their money adviser and believe they could be eligible;
- need to explore all the forbearance options available to them in order to establish whether HMS is the appropriate option for them;
• will return to their money adviser to complete the necessary
documentation for HMS if their lender is willing to consider them for the
scheme.

Explaining benefits of HMS - Flexibility
One of the benefits of HMS to the borrower is that it is flexible; if the
homeowner’s situation changes (for better or worse), they can ask their lender
to adjust the level of payments. This means that as soon as their situation
improves, they can agree with their lender to decrease the amount of interest
deferred, or return to full payments, in order to stop or reduce the build-up of
debt. If their situation gets worse, they can reduce their payments to a more
affordable level, as long as they maintain the minimum amount of 30% on the
monthly interest payment due. If the lender agrees to the adjustment, they will
not take action against the borrower as long as the new level of payments is
maintained.

Managing other debt - charging orders
Charging orders are not covered by HMS. Borrowers who have a charging
order issued against their property are not excluded from HMS, nor do they
need agreement from their charging order creditor to enter the scheme. Where payments are being made in respect of the charging order, these
should be reviewed as part of the holistic money advice offered and factored
into the CFS.

If it is not possible to negotiate or maintain agreed payments with the charging
order this may trigger an application for order for sale - the homeowner will
need to be aware of this risk.

Managing unsecured debt – payments to unsecured creditors
The scheme requires that borrowers pay as much as they can towards their
mortgage. This is because it is better for borrowers to pay more rather than
defer and build up more debt. The scheme is not designed to enable the
homeowner to prioritise other debts over their mortgage.

However, there is no requirement in the scheme that borrowers must be
making nil or token payments on their unsecured debt in order to be eligible
for HMS. Clients maintaining individual voluntary arrangements (IVAs), or
Trust Deeds in Scotland, are potentially eligible for the scheme. The lender
will make a decision whether to admit the household on the scheme based on
the information provided in the common financial statement. If the homeowner
is continuing to make payments to non-priority creditors, the mortgage lender
may request that these be reduced before they will consider them for the
scheme.

Documentation required to pursue HMS with the lender – Savings
Declaration
Borrowers must be provided with the following documentation to pursue HMS
with their lender:
  o Common Financial Statement
  o Confirmation of Advice letter
Signed Common Financial Statement declaration
Signed saving declaration

A template copy of the Savings Declaration is attached to the money advice pack and should be given to the homeowner to complete and sign.

Initial offer period and review point – up to one year
The lender will make an initial offer for a homeowner to enter HMS for a period of up to one year. At the end of the period, there will be a review to ensure that the homeowner is still eligible for the HMS and the scheme is still a suitable option for them.

The lender will send the homeowner a reminder about the need for the review in advance, setting out the steps the homeowner needs to take if they wish to continue in the scheme,

Confirmation of advice – explaining the temporary income shock
The Confirmation of Advice letter has been revised to provide greater clarity on the advice given regarding the temporary income shock. It now includes the following lines: "We discussed the fact that you need to repay the interest deferred upon exiting the scheme and therefore the Scheme is only suitable for you if you believe your income will be recoverable" and; “We discussed the risks and benefits of joining the Scheme which may be relevant both during your membership of the Scheme and after you leave the Scheme, and you confirmed that you understood these risks and benefits, including the fact that your income will need to recover in order to pay off the deferred interest upon exiting the scheme”. It also makes reference to the saving declaration as one of the documents must complete and send to their lender.

Lender Documentation – now available
The adviser pack now has copies of sample documents that the lender would send to the borrower in respect to the scheme:

- **Lender Decision Letter** indicating initial lender decision to accept borrower onto HMS and outlining the terms on which they will be initially admitted to the scheme
- **Borrower Confirmation Form** indicating borrower's agreement to the terms of an initial admission
- **Borrower Notification Letter** indicating initial lender decision not to accept borrower to the scheme
- **Notice of Lender Concession** confirming lenders acceptance of the borrower on to the scheme and the terms which will now be applied to the borrowers mortgage
- **Borrower Review Letter** notifying the borrower of the requirements to review eligibility for the scheme following expiry of the initial offer period
- **Borrower Exit Letter** where borrower is due to leave the scheme (whether after the initial deferral period or after the maximum 2 year term)