

Case Study

Gavin and his partner Charlotte bought their first flat a year ago. They took out a £225k mortgage on a two-year tracker deal. They are currently paying £1,300 per month. At the time their combined salary was £75k

pa. Since then Charlotte has decided to undertake a teacher training course and will not be earning for the next nine months. Gavin earns £40k pa and feels he can cover the mortgage but

only at a struggle. The couple want to know if they can reorganise their finances at least until Charlotte has finished her course. They have no other outstanding debts. What are their options?

“It is not made clear as to what Gavin and Charlotte’s current loan-to-value is. Also as their tracker deal has not ended they could be liable to pay an early repayment charge if they do move lenders. Because of this perhaps the first thing they should consider doing if they are on a repayment basis is to approach their existing lender to see if it can make arrangements to transfer to an interest-only mortgage to reduce their monthly outgoings.

The other obvious alternative would be for Charlotte to defer her teaching course for a year or so, so that she and Gavin can make provisions to build up a reserve fund which they can utilize while Charlotte is out of work.

The easiest way of doing this is to consider remortgaging to a flexible or offset mortgage (something that their existing lender may be



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able to assist them with). Flexible mortgages and offset loans allow borrowers to make overpayments at any time for any amount, whether these are one-off payments or regular lump sums. On a truly flexible loan, interest would be calculated daily ensuring that any overpayments made would have an immediate beneficial effect. As most lenders these days allow guaranteed access to previous overpayments, Gavin and Charlotte would be able to make use of these when Charlotte is training by either taking a payment holiday for nine months or by making underpayments until such time that Charlotte is earning again. The Abbey, The Woolwich, Intelligent Finance and Standard Life are such lenders that do offer flexibility.

Other options that they may wish to consider include undertaking part-time work to supplement the income lost or asking for family help.”