

## Case Study

Phil Kettle's 70-year-old parents want to release some equity from their home as their income has recently been overtaken by their outgoings. Their main expenditure is for their interest-only endowment mortgage (£400 per month) which has three years left to run. The property is worth roughly £200k. His parents do not want to move for the foreseeable future. Can Phil and his sister help out by guarantoring a bigger mortgage for their parents for a longer period, with both of them paying something towards the payments each month? What are the other options for Phil's parents?

"It is not disclosed by how much Phil's parents' income has been overtaken by their outgoings and without investigating the breakdown it may be that there are savings to be made by bringing their finances back into balance.

It is stated that their main expenditure is their interest-only endowment mortgage; however we would need to know whether the figure of £400 represents the interest-only payment on the mortgage or does it include the endowment premium as well? Given that there are only three years to run on the endowment, it would be prudent to ascertain the value of the policies and are the policies with-profit or unit-linked as this will all have a bearing on their relative position. If the £400 represents their interest-only payment excluding their endowment payment then I would estimate their debt to be in the region of £74,000, representing some 37 per cent loan-to-value. Therefore in the circumstances I would suggest an approach be made to their existing lender to see if it would accommodate either a full or



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partial roll-up of interest on the mortgage for three years until the policy/policies mature.

Obviously ascertaining the endowment policies' surrender and expected maturity values would indicate the relative strength of their position and the proposition as to its efficacy. Further if Phil and his sister are prepared to help out by acting as guarantors for a bigger mortgage for their parents over a longer period then it is potentially a better arrangement for them to subsidise their parent's mortgage in the meantime dependent on the interim shortfall.

Obviously other options for Phil's parents are to sell and move downmarket which would probably be economically impractical and it is not to be advocated per se to surrender the policy/policies and reduce their debt as among other things they would lose the life cover the policy affords. All-in-all a lot more information is required before any true assessment of their situation and what might be promulgated as advice can be offered."