PIA AND YOUR MORTGAGE

What happens to your mortgage in a Personal Insolvency Arrangement (PIA)?

A **Personal Insolvency Arrangement (PIA)** is a formal debt solution that addresses problems with your **unaffordable mortgage** and **debt repayments**. The main purpose of a PIA is to allow you to regain control over your financial affairs in a way that is fair and realistic for you and your creditors, whilst allowing you to keep your home.

WHAT HAPPENS TO MY MORTGAGE?

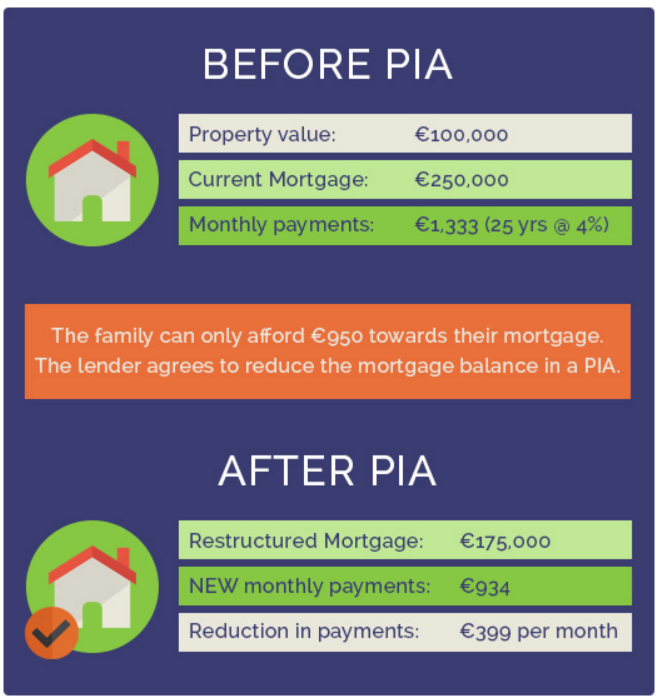
In a PIA your mortgage is restructured so that you can lower your monthly mortgage repayments. There are several different ways your mortgage can be restructured. The way that is best for you/your lender is entirely dependent on your financial and mortgage situation.

This guide outlays the various types of restructure that can be applied to your mortgage in a PIA.

COMMON RESTRUCTURES

1.) Principle Reduction (Write Off)

Principle reduction involves reducing the overall mortgage balance to make the mortgage more affordable. The amount that the mortgage is reduced by depends on what you can afford to pay, rather than the amount of negative equity on your home. The overall reduction cannot go below the current market value of the property. See the example below to see how this works.



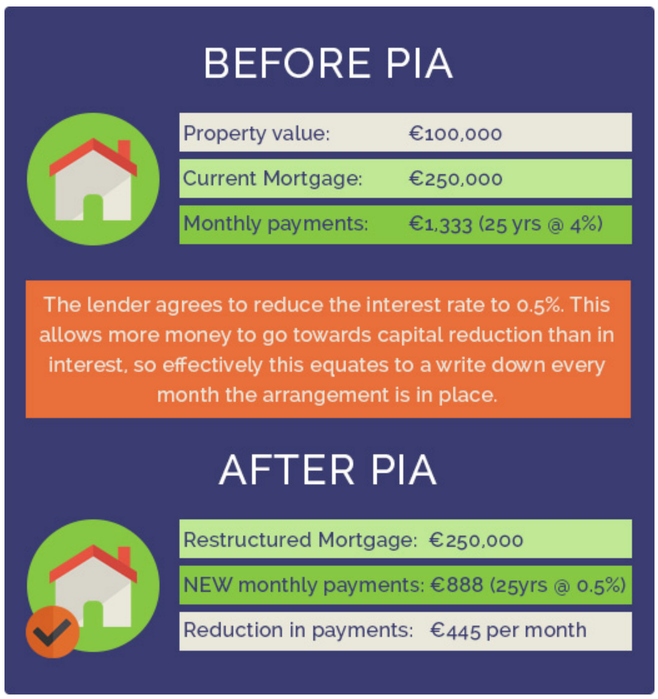
So why would the mortgage lender agree to reduce the mortgage in this example?

The incentive for the mortgage lender is that they will receive €75,000 more than they would if they repossess the property and sell it now. The family remain in their home provided they pay their mortgage for the remaining term.

The one condition is that if the family sells their home before the lesser of 20 years or the expiry of the mortgage term and the amount the property is sold for exceeds the value of the property when the write down occurred, then the mortgage lender can recover this. Say for example in 15 years the property is sold for €200,000 then €25,000 is the amount that can be returned to the mortgage lender.

2.) Interest Rate Reduction

Interest Rate reduction is a common solution to resolving financial difficulty. It involves reducing the contractual interest that is applied to the mortgage. This can improve your affordability substantially. Although it may not seem as attractive as a "write down", it can be as beneficial in a lot of cases. See the example below to see how this works.



Read on to see a comparison of how the mortgage balance would compare after 6 years (the term of a PIA), if the client had opted for the PIA with the interest rate reduction and if the client had not opted for a PIA and stayed on the interest rate of 4%.

Mortgage balance comparison in a PIA (Interest Rate Reduction method)

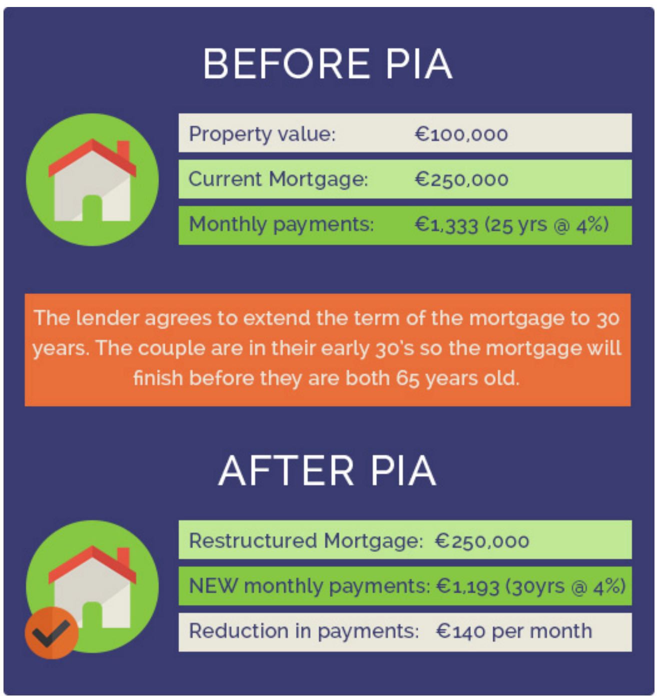
	Without a PIA	With a PIA
Mortgage balance on commencement	€250,000	€250,000
Interest rate	4%	0.5%
Mortgage balance after 6 years (The term of a PIA)	€210,505	€192,818

So the overall reduction is almost €20,000 over 6 years and there is no look back period like there would be in the previous example.

3.) Term Extension

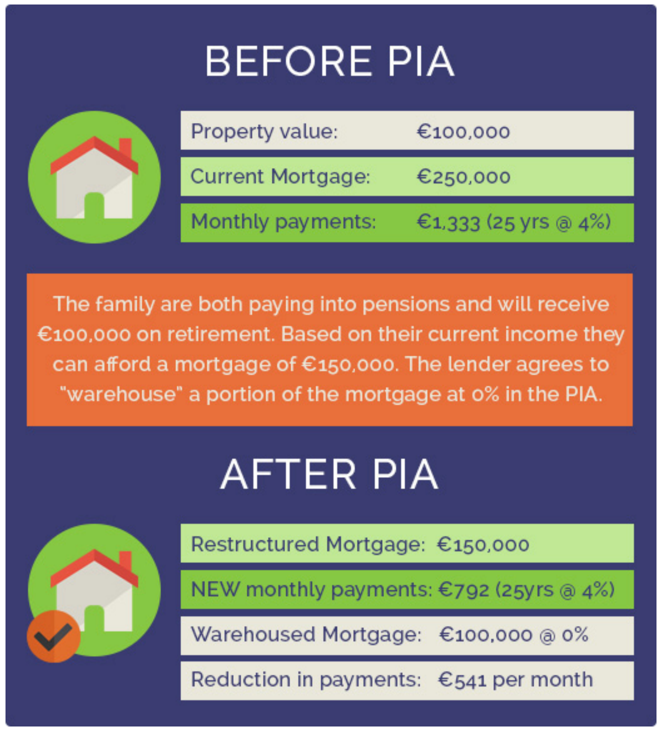
Term Extension is another method of reducing the strain of a mortgage on a family. It is the most appropriate solution in some instances. For example, if you are a family with large unsecured debts that are causing you to struggle to pay your mortgage, then this would be a good option. When the unsecured debts have been dealt with and written off through a PIA or DSA, then you will have enough money left over to service your mortgage going forward.

A term extension can allow a reduction in mortgage payments easing the financial strain. This option is also more suited to young couples and families so that they are not trying to maintain a mortgage into their later years. See the example below to see how this works.



4.) Split Mortgage

A Split Mortgage involves your mortgage being restructured so that part of it is put to one side in order to be resolved at a later date. This can be an appropriate method of restructure if you are expecting your income to improve in the short to medium term or if you are to receive a lump sum payment in the future (i.e. a pension lump sum payment on retirement). See the example below to see how this works.



The pension lump sum will be used to address the €100,000 remaining at the end of the mortgage term.

The split mortgage provides the family with some "breathing space" for that period of time. The lump sum is addressed at the end of the mortgage term.

So why would the mortgage lender agree to warehouse part of the mortgage in this example?

The benefit to the lender is that they do not suffer a loss of the negative equity amount by repossessing the property and selling it. The family continue to pay what they can afford until they receive the pensions lump sum.

The family also benefit from not paying interest (depending on the lender) on the warehoused element which equates to a saving of €58,351 over the 25 years. The family are then left with a mortgage free property.

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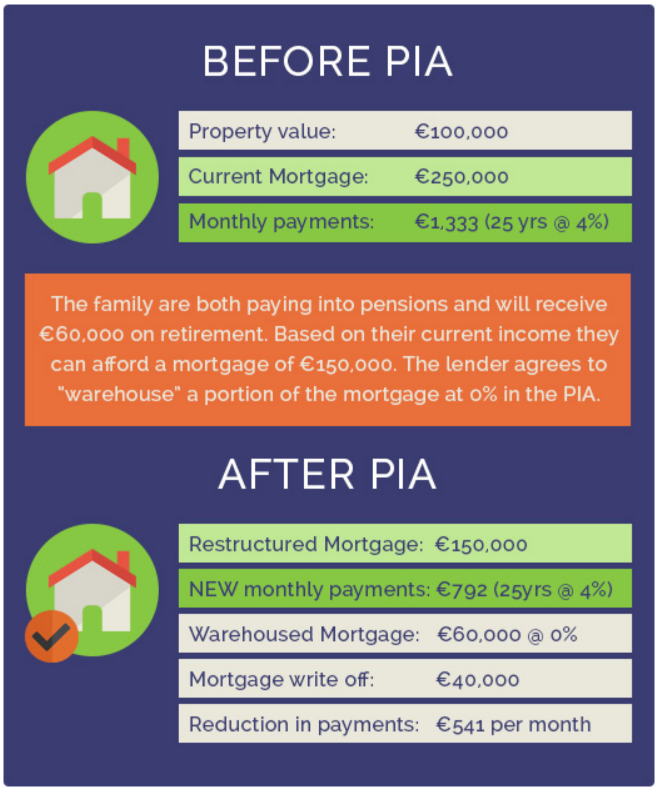
5.) Split Mortgage (Hybrid)

A Hybrid Split Mortgage is an alternative to the Split Mortgage and is possible with some lenders. It involves both an element of the mortgage being warehoused and an element of the mortgage being written off, due to it not being affordable. Below is the Split Mortgage example, but in this case the homeowners will only be receiving €60,000 in their pension lump sum as opposed to €100,000.



The pension lump sum will be used to address the €60,000 remaining at the end of the mortgage term.

The split mortgage provides the family with "breathing space" for that period of time and the lump sum is addressed at the end of the mortgage.

So why would the mortgage lender agree to warehouse and reduce part of the mortgage in this example?

The benefit to the mortgage lender is that they do not suffer as much of a loss of the negative equity amount by repossessing the property and selling it. The family continue to pay what they can afford until they receive the pension lump sums.

LESS COMMON RESTRUCTURES

1.) Fixed Payments

Mortgage payments might be fixed at a reduced rate to allow a payment towards unsecured creditors in a PIA.

2.) Interest Only or Interest Only Part Capital

Mortgage payments might be reduced to an interest only or interest only and part capital basis to allow funds to be diverted towards unsecured creditors.

3.) Debt for Equity Swap

A mortgage lender can agree to write off an amount of the mortgage in exchange for a percentage share in the property. This type of restructure doesn't happen very often.

4.) Mortgage to Rent

A housing association or County Council can agree to purchase your property from the mortgage lender at market value and rent it back to you. This does result in a loss of ownership of the property, however it does allow you to stay in your home.

5.) Deferred Payments

It is possible to suspend mortgage payments for a period of time (not exceeding the duration of a PIA). This will allow funds to be paid towards your unsecured creditors. Once these payments are complete and your unsecured debts are cleared, this allows prioritisation of your family home mortgage.

6.) Capitalisation of Arrears

This involves the mortgage arrears balance being added to the overall mortgage balance. Doing this allows you to improve cash flow because the mortgage lender may be asking for the arrears to be paid down over a 12 month period whereby capitalisation will mean they are paid down over the mortgage term.

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