

Take Cover for a Rainy Day

How Insurance Can Protect You From Mortgage Arrears

“Your home is at risk if you do not keep up the repayments on a mortgage or other loan secured on it.”

You have probably seen this statement on mortgage advertising, but have you ever stopped to think about what it means?

If you fall behind with your mortgage repayments and cannot catch up again, you could eventually lose your home. But you can take steps to protect yourself against this risk by taking out Mortgage Payment Protection Insurance (MPPI).

This leaflet has been prepared by the Council of Mortgage Lenders and the Association of British Insurers, in consultation with the Government, to explain what MPPI is and to answer your questions.



What is MPPI?

Mortgage Payment Protection Insurance (MPPI) pays your monthly mortgage payments for a specified period if you suffer accident, sickness, or unemployment. Lenders and insurers have agreed to adopt certain minimum standards for MPPI, so you can be confident that the level of cover you will be offered meets or exceeds these.

How does MPPI work?

You pay a premium each month while the mortgage is running. If you become unemployed, or unable to work due to accident or sickness, the policy starts to pay out (usually direct to your lender) to pay your mortgage.

To keep the cost of the insurance down, there are some periods where you will not be covered (you should check the individual policy for exact details).

The main ones are an "exclusion period" of up to 60 days when you first take out your policy, during which any claim for unemployment would not be met (although claims for accident or sickness would be paid).

In addition, there is an "excess" or "waiting" period of up to 60 days for each claim, during which no payments will be made. So it makes sense to try to keep enough

money in savings to cover two months worth of mortgage payments, even if you have MPPI. There are some circumstances when MPPI will not cover you - for example, unemployment caused by misconduct, or that you knew was impending at the time you took out the insurance, or sickness claims caused by certain pre-existing medical conditions.

How does it work if I have a joint mortgage with someone else?

The MPPI can be set up so that it covers both of you, usually by allocating a proportion of the MPPI to each person (eg 50/50 or 60/40). If one person needs to claim, then the amount of the benefit payment will be the proportion of the MPPI allocated to that person. It is also possible to allocate the MPPI on a 100/100 basis, so that 100% of the MPPI is paid, even if only one of the joint borrowers loses their income. This type of arrangement will generally require higher premiums.

What if I am self-employed or on a contract?

You will generally be able to take out MPPI even if you are self-employed or on a contract. But make sure you check the details of the circumstances in which you can make an unemployment claim.

How do I buy MPPI?

If you are taking out a new mortgage, you will probably be offered MPPI by your lender or the intermediary arranging your mortgage. Unless the MPPI is part of a mortgage “package”, it is up to you whether you take the MPPI offered with the mortgage or to buy it from elsewhere. If you already have a mortgage, you may be able to buy MPPI from your lender, or through an insurance broker, or direct from an insurance company. MPPI is usually cheaper (and the terms may be more generous) if you take it out at the time you start your mortgage, rather than leaving it until you have had your mortgage running for a while.

What happens if I need to claim?

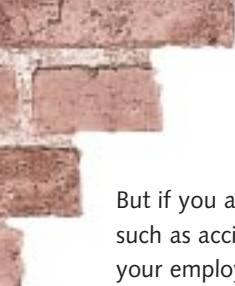
Your policy document will tell you how to claim. Usually, you need to obtain a claim form, complete it and send it to your insurer, together with some evidence (such as a redundancy notice) to support your claim. If you take a temporary job, then provided you let your insurer know beforehand, you can interrupt a claim without having to pass the 60 day excess period again when your temporary employment ends.

What if I have a complaint?

You should first contact whoever sold you the policy, or the insurer. They will consider the complaint. If this does not resolve the problem, you can contact the independent Insurance Ombudsman Bureau.

Check it out!

Most people should consider taking out full MPPI, covering the full amount of the mortgage payments following accident, sickness or unemployment, and this is what you will generally be offered in the first instance.



But if you already have other cover - such as accident or sickness cover from your employer, Income Protection or Critical Illness insurance, or substantial levels of savings - you may decide that you do not need the full level of MPPI insurance. If so, you may decide to "top up" your existing cover (perhaps by taking out the unemployment-only element of MPPI), or you may decide that you do not wish to take out MPPI at all. **But be very careful that you are not being over-optimistic about your ability to meet your mortgage and other commitments if you decide not to take out MPPI.** If you decide not to take out MPPI cover, your lender or intermediary may ask you to sign your confirmation that this is the decision you have reached, after considering all the

circumstances. Signing this confirmation will not affect the willingness of your lender to try to help you if you do not take out MPPI and subsequently fall into arrears with your mortgage repayments at a later date. However, if you have MPPI or some other form of protection, both you and your lender will have greater scope for dealing with payment difficulties.

This leaflet has explained only the very basic provisions of MPPI. For further information, contact your mortgage adviser. Remember - no-one expects the worst to happen when they take out a mortgage, but how would you cope if it did? Don't risk losing your home - protect your mortgage repayments.

Other useful information

The Association of British Insurers provides other leaflets and information on insurance. These are available on its website at <http://www.abi.org.uk> or by writing to Association of British Insurers, 51 Gresham Street, London EC2V 7HQ.

The Council of Mortgage Lenders provides other leaflets and information on mortgages. These are available from the CML's enquiry line on 0171 440 2255.

The Benefits Agency has leaflets and information on welfare benefits (including Income Support and Jobseeker's Allowance). A specific leaflet on MPPI titled Protecting Your Mortgage (Ref No: IS800) is available. You can find the address and phone number of your local office in the local telephone directory.

