Media Q&A

Consumer Question:

We took out our mortgage in 2011. Five years ago, my partner lost his job and was out of work for nearly two years. He is now employed but money is tight and we're in mortgage arrears of around €40,000. We are currently making interest-only payments and we hope to get back to full repayments in time. While the bank has been supportive, they haven't mentioned if our mortgage protection policy is still sufficient, and I'm worried it would no longer clear our mortgage if either of us dies. Is that the case?

Answer from Barry McCutcheon, Proposition Lead at Royal London

You're right to be concerned, as you could be insufficiently covered by your mortgage protection. Mortgage protection policies are low-cost, but relatively inflexible products, designed to decrease broadly in line with a typical capital and interest mortgage. But when those payments are interrupted or reduced, there's a likelihood that a gap will grow between the outstanding mortgage, including arrears, and the policy cover. This is because the assumed capital repayments have not been made.

Many people in Ireland may have struggled to meet their mortgage commitments due to Covid-19 and, before that, the recession. Like you, they may have entered into a special agreement with their lender to be able to cope financially with their monthly repayments. These restructuring agreements could include interest-only plans, reduced payment options and term extensions. When this new agreement takes effect, mortgage protection is often overlooked and not updated. When changes to the mortgage agreement are not reflected in the mortgage protection cover, it can leave the mortgage holders underinsured as a result.

Essentially what this means for couples is that, if one spouse died, the mortgage protection cover paid out would be less than the full amount owed on the mortgage. So, the surviving spouse would be left having to pay off the remainder of the mortgage at a time when they can potentially least afford it. It's great that you are aware of protecting your financial resilience. Sometimes people are understandably so focused on getting themselves to a point where they can make their ongoing mortgage repayments that, they don't think to check whether their existing mortgage protection cover is still sufficient. Even those that have managed to get their mortgage back on track could have an issue.

As mortgage protection policies generally cannot be restructured, in most cases a new policy would need to be put in place to reflect the fact that the mortgage isn't reducing or to match the revised mortgage agreement. While it's possible that your lender would write off the uninsured balance in such an instance, it would be unwise for the mortgage holder to rely on the possibility of such 'generosity' on their behalf.

As you have concerns about the adequacy of your mortgage protection cover, you should seek impartial advice from a Financial Broker. They can assess whether you have a shortfall in cover and advise you on next steps, be that replacing your existing policy or adding a smaller policy to cover the gap.

ENDS

This question was submitted to The Sunday Times for publication.

About Royal London:

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Royal London's Irish office is based at 47-49 St Stephen's Green, Dublin 2.

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