# Homeowners: know your rights or lose out

FSA says deal switch threat may not be legal. By **James Charles**

BANKS have been warned that the small print of mortgage contracts allowing them to switch borrowers on interest-only mortgages to less risky capital repayment loans could be unenforceable.

The warning by the Financial Services Authority (FSA), the City watchdog, will come as a relief to borrowers after a campaign by several banks, including Lloyds Banking Group, the UK's biggest lender, to contact hundreds of thousands of borrowers on interest-only deals over the past year.

Homeowners complained of feeling intimidated after receiving letters from lenders warning they may be asked to switch to capital repayments if they do not have a suitable repayment vehicle to clear their debts.

Lenders have been seeking proof of a savings or investment plan as most no longer consider the sale of the house or the use of annual bonus payments as acceptable ways to clear the debt — methods favoured by wealthier borrowers who opted for interest-only deals before the credit crunch.

A switch to capital repayments would cause a sharp rise in monthly costs. On a £200,000 mortgage, repayments on an interest-only basis would be £666, compared to £1,055 on a capital repayment basis.

Ray Boulger of John Charcol, the broker, said: "We have been contacted by anxious clients with mortgages from banks such as Lloyds, Barclays and Alliance & Leicester who have received letters warning they could, or in some cases would, be switched to capital repayment."

Joanne Humber, 57, the director of training for an IT consultancy, and her husband Robert, 72, an architect, were sent three letters from Lloyds warning that it could seek to switch their mortgage from interest-only to capital repayment unless the couple provided proof of a repayment vehicle.

The couple have a £240,000 loan on a property worth £590,000, with four years to the end of the term.

She said: "We found it extremely intimidating to receive these letters out of the blue. When we took out the loan in 2007, we were not required to provide detailed evidence of a repayment vehicle. We might downsize to clear our debt, or use our savings. Either way, we have a large amount of equity in the property so there is little risk to the bank."

Figures released last week by the Financial Ombudsman Service show that it received 2,383 complaints about mortgages in the past three months of last year, a 30% increase on the same period in 2010. It upheld just under 25% of complaints.

### Can my lender move me from interest-only?

The small print of most mortgages includes a clause stating the lender would be allowed to force a borrower from interest-only to capital repayment. However, the FSA warned in its guidance to lenders that "switching terms in standard consumer contracts may pose a risk of being considered unfair", and such a clause might be successfully challenged in the courts.

Boulger said: "As long as borrowers continue to comply with the terms of their mortgage offer, lenders have no right to unilaterally change any of the terms." He said this applies even if you cannot provide evidence of an approved repayment vehicle, provided you keep up loan repayments.

Barclays and Lloyds insist they never force borrowers to move from interest-only to capital repayment.

Santander, which owns Alliance & Leicester, said: "We contact all interest-only borrowers approaching the end of their mortgages to discuss their plans for repayment. In some cases we will agree a conversion to a capital repayment plan."

### Can I move an interest-only loan to a new property?

Lenders treat this as applying for a new loan, and will apply tougher criteria introduced since the credit crunch.

Ian Gray of largemortgage-loans.com, the broker, said: "Your bank will be within its rights to block the transfer if you do not have enough equity in the property." Most lenders require at least a 25% equity stake and evidence of a repayment plan, such as savings or investments.

ADRIAN SHERRATT

Joanne Humber and her husband Robert felt intimidated