



## ***Only one in three interest-only mortgagees has an investment plan that is on course to clear the debt***

***Many say they will be forced to sell up at the end of the term***

**London 11<sup>th</sup> February 2013:** A new report from BDRC Continental ([www.bdrc-continental.com](http://www.bdrc-continental.com)) released today, indicates that 1.1 million interest-only mortgages appear to be “ticking time bombs”, with holders either having no investment plan for capital repayment, or one that is not on track to clear their debt.

The report from Mortgage Achilles, BDRC Continental’s annual study of the “mind of the mortgage market”, looks at the “ticking time bomb” issue from the standpoint of interest-only mortgage holders. It questions how people who have these mortgages intend to pay them off at the term end.

BDRC Continental estimates 1.8 million homes in the UK are on an interest-only mortgage, around 19% of all home purchase mortgages in the UK. And 12% of those with an interest-only mortgage say they intend to repay the capital by selling their home at the end of their mortgage term – that represents 216,000 home owners.

### **No plans, or plans that are not on course to clear debt**

Looking more generally at repayment plans for all interest-only mortgage holders:

- 39% have no investment plan to clear the debt (700,000 borrowers) – **a total mortgage value currently of around £75bn**
- a further 400,000 (22%) have an investment plan but it’s not on course to clear the debt – **a total mortgage value of £45bn**
- one in three (31%) have an investment plan that is on course to clear their mortgage (560,000 out of 1.8 million) – **a total mortgage value of £65bn.**

## **Still time to act**

The BDRC Continental Mortgage Achilles survey shows that, while outstanding debts are the bad news, in some cases the end of the mortgage term is well into the future. Among those with no investment plan almost half (48%) have over 15 years to go to full term, which means that many holders of this kind of mortgage still have time to seek advice and make proper arrangements for clearing the commitment. However, one in 14 reach the end of their mortgage term in the next five years. In those cases, there is less time to decide upon appropriate action.

## **Current debt repayment intentions**

Among those with no investment plan, almost a quarter (23%) expect to switch to a repayment mortgage, while 16% either mentioned selling the property or using cash savings to repay the capital. Worryingly, a quarter (26%) said they did not know how they would repay the capital.

Those with an investment plan that is not on course to repay their mortgage most often mentioned using an endowment policy (29%), cash savings (26%), switching to a repayment mortgage (17%) or selling the property (12%) as the means to repay.

Other methods mentioned included overpaying the mortgage, money from an inheritance and stock market investments.

Lenders and the Financial Services Authority have severely tightened the availability of interest-only loans. Their next step may be to help people identify the best way to pay off their commitment.

Tony Wornell, Director at BDRC Continental, said: "Our research suggests that some interest-only borrowers are not engaged with the end game – what will happen when their mortgage term finishes and they have to repay the capital. Everyone with an interest-only mortgage needs a credible repayment plan. Changing to a repayment mortgage is the most certain solution but if that is not possible, borrowers could consider overpaying the mortgage or building up cash savings if they do not like the idea of an investment plan. Some borrowers are using a mix of methods to ensure they can clear the capital. Whatever the plan, regular review is important in staying on course. It could help if lenders got involved in this review and feedback process rather than leaving it entirely to the borrower."

## **ENDS**

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## **Note to editors**

### **Methodology**

Mortgage Achilles is BDRC Continental's annual study of the "mind of the mortgage market" and was established in 1996. The Mortgage Achilles findings were based on 1001 interviews conducted in September and October of 2012 among a nationally representative sample of

mortgage holders in Great Britain, of whom 196 held an interest-only mortgage. The Mortgage Achilles report on interest-only mortgages was published in January 2013.

### **Terminology**

The term 'interest-only' includes mortgage holders with endowment mortgages and those with 'pure interest only' mortgages (where there is no assigned investment to repay the capital).

### **Origin of “ticking time bomb”**

The words “ticking time bomb” were first used by Martin Fallon MP at a Treasury Select Committee meeting in March 2012. The notion that interest-only mortgages are a “ticking time bomb” was endorsed by FSA Director Martin Wheatley.

### **About BDRC Continental**

BDRC Continental is an award-winning insight agency. We help our clients get closer to their customers by translating data into actionable business intelligence. We do this through our range of market-leading insight tools, a dedicated suite of advanced analytics and over two decades of experience working with leading service sector brands across the globe.

Established in 1991, we have an unrivalled reputation as a full service research consultancy with specialist expertise across a number of sectors including hotels, meetings & hospitality, financial services, media & advertising, Government & not for profit, culture & leisure, tourism, travel & transport and sports & sponsorship. As well as undertaking bespoke research for a wide variety of clients, we conduct a number of syndicated studies and have developed proprietary techniques including Tracktion, Grapevine, Service Intensity, the Business Opinion Omnibus, SME Finance Monitor and ZMET Visionary Thinking.

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