



Experiencing financial hardship...

What are my options?

In the current global situation, many people may be struggling to meet their financial obligations and experiencing financial hardship.

Most New Zealand banks have a financial hardship policy available to assist customers who may be experiencing some form of financial hardship due to Covid-19.

Your local Mortgage Express Mortgage Adviser can advise you of your options for any of the following:

- Extending the term of your loan
- Changing to interest only
- Taking a mortgage repayment holiday (Deferred payment)

Option 1: Extending the term of your loan

Extending the term of a loan can help to reduce your repayment amounts through times of hardship.

Let's use the following loan example:

\$600,000 @ 4.5% over 20 years = monthly payment of \$3,796 approx.

If you extend the loan term to 30 years, your new monthly payment would be \$3,041.

Impact

- Your monthly commitment is reduced by \$755.
- You have extended the length of time to totally repay your loan, which will increase the overall interest costs. Therefore, overall you end up making more payments over a longer period of time
- \$600,000 @4.5% over 20 years = \$311,015
- \$600,000 @4.5% over 30 years = \$494,440
- Most banks will probably limit the length of time you can extend the loan term for, and it's a good idea to revert to the original loan term as soon as you can.

Option 2: Changing to interest only

Changing to an interest only mortgage means you'll only be paying interest and not the principal, which will reduce your regular repayments.

Let's use the same loan example:

\$600,000 @ 4.5% over 20 years = monthly payment of \$3,796 approx.

If you change to interest only, your new monthly payment would be \$2,250 interest only.

Impact

- You have reduced your monthly commitment by \$1,546.
- You have extended the length of time it will take to totally repay your loan by the length of the interest only period. This will increase the overall interest costs.
- In the example above, if you selected a 6-month Interest only period, you will have increased the cost of your mortgage by \$13,500 (6 months of \$2,250 Interest Only payments).
- This means you'll pay more interest in the long term, as you aren't reducing your principal for the agreed interest only period. On the upside though, the balance owed does not go up like it does under the loan repayment holiday option (explained below).
- Most banks will probably limit the length of time you can have on interest only and it's a good idea to revert back to paying the principal off the loan as soon as possible.

Option 3: Mortgage repayment holiday (deferred payment)

A mortgage holiday is a break from your loan repayments; the amount you owe will increase as your loan continues to accrue interest.

Let's use the same loan example:

\$600,000 @ 4.5% over 20 years = monthly payment of \$3,796 approx.

Impact

- When you defer the monthly loan payments, you are adding the interest payments to your loan balance.
- The above \$600,000 loan example has a monthly payment of \$3,796 which includes \$2,250 of interest
- After 1 month your loan balance will be \$602,250, after month 2 \$604,508 and after month 3 \$606,775.
- You will now be paying interest on the new loan balance for the remaining loan term (or you may have had the loan term extended). The interest that has been included into the loan balance and/or the higher monthly payments may not seem like a lot. But when you consider it is for the remaining life of the loan, it could be thousands of dollars in extra payments.
- Thus, this "holiday" might not really be as fun as it first sounds!
- No doubt a repayment holiday may offer peace of mind initially - but it is not a long-term solution. During your repayment holiday period, the interest continues to accrue and it is added to your home loan balance. This is also known as interest capitalisation. At the end of the "holiday" period, your home loan balance would have increased.
- Most banks will probably limit the length of time you can have a mortgage repayment holiday to 3-6 Months.

These are unprecedented times for all of us and more so for people having a mortgage repayment commitment. All of these options may help free up as much 'cash' as possible, but this privilege comes at a cost. There is, as they say, no free lunch even in periods of crisis. That's why each option needs careful consideration and advice from a mortgage specialist. Contact your local Mortgage Express Mortgage Adviser today for personalised advice around your financial situation now and into the future.

CONTACT US TODAY

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