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What to do if your property has negative equity

Exploring some frequently asked questions

Many people perceive purchasing a property as a long-term financial investment. However, like any investment, there's no surefire guarantee of growth. The UK housing market has historically experienced some periods of falling property values. If this occurs while you own a property, it might be worth less than the amount you owe on your mortgage. This unfortunate situation is referred to as 'negative equity'.

The property market has been on a seemingly unending upward trajectory over the past decade, leading many to relegate the notion of negative equity to the recesses of their minds. However, a property value fall poses a significant risk of negative equity for some mortgage homeowners.

While buying a home can be a sound financial investment, it's crucial to understand its risks, including the potential for negative equity. In light of the current economic climate, which has had a knock-on effect on some property prices, you may be apprehensive about the potential implications.

Let's explore some frequently asked questions about negative equity.

What is negative equity?

Negative equity is a situation where the market value of your property falls below the outstanding mortgage you still owe on it. Under normal circumstances, homeowners have positive equity in their properties. For instance, if your house is valued at £200,000 and you have a mortgage of £190,000, you possess equity of £10,000 in your home.

However, if your property's worth drops to £180,000 and you have a mortgage of £190,000, you're left with equity of negative £10,000. In simpler terms, you've entered the realm of negative equity.

How does negative equity occur?

Negative equity predominantly occurs when a buyer secures a mortgage with a high loan-to-value (LTV) ratio, followed by a drop in house prices. For example, a £190,000 mortgage against a £200,000 property is deemed a high LTV mortgage because it accounts for 95% of the property's value. If house prices plunge and the property's worth dips to £180,000, the buyer is left grappling with negative equity.

Identifying if your property is in negative equity?

You may not be aware of being in negative equity. If you've recently purchased a home with a high LTV mortgage and house prices have seen a subsequent decline, it would be prudent to investigate your equity status.

To do this, consult with your mortgage provider to ascertain exactly how much you owe, and engage an estate agent or surveyor to determine your property's current market value. Then apply this formula: Property market value minus the mortgage owed equals the equity (or negative equity).

What are the implications of negative equity?

Negative equity might not impact your daily life if you intend to remain in your home for many more years. However, it becomes a significant issue if you are considering selling your home or if your mortgage deal is nearing its end.





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Can I sell my property with negative equity?

Selling your home for less than the amount you owe your mortgage provider necessitates an alternative means of repaying the total debt. If your mortgage provider doubts your ability to do this, they will not permit you to sell.

Can I remortgage with negative equity in my property?

Remortgaging at the end of your current deal can prove challenging if you're dealing with negative equity. Unless you reduce your negative equity, you may have to start making repayments at your mortgage provider's standard variable rate (SVR), which could be higher than what you're accustomed to. If this poses a risk of financial hardship, it's crucial to communicate with them at the earliest opportunity.

If you find yourself grappling with negative equity, it might feel like you're in a financial maze. But do not fret! You can take several pathways to steer your way out of this situation. Let's delve into the options at your disposal.

Keep calm and carry on

If your financial circumstances allow you to meet your mortgage repayments comfortably, and there's no compelling

need to move house, then biding your time could be a viable strategy. By consistently making your monthly repayments, you're incrementally building your equity. In due course, as property prices generally ascend, your negative equity could naturally evaporate.

Accelerate repayments

Should you have available funds elsewhere, it might be worth exploring whether your mortgage provider permits early repayments. You can eradicate your negative equity by settling the gap between your property's market value and the outstanding mortgage. This then paves the way for negotiating a new mortgage deal or selling your property.

Negative equity mortgage

Very occasionally, some mortgage providers may agree to let you move house and transfer your negative equity to the new property. This option demands a deposit for the new property and means surrendering any money you had previously paid towards your existing home. It's an uncommon route, but worth investigating if it aligns with your situation.

Become a landlord

If your mortgage repayments start to climb

and become unaffordable, you could rent out your own home and move into a different property with lower rent. However, this option requires obtaining permission from your mortgage provider.

Boost the property value

Another approach to reducing negative equity is by enhancing the value of your home so that your mortgage constitutes a smaller percentage of its worth. This could be achieved through careful budgeting and execution of home improvement projects.

It's important to note that most of these approaches come with associated costs. Therefore, running some meticulous calculations is crucial before making any final decisions.■

Need more insight on mortgages and negative equity?

No matter your circumstances, we've likely handled something similar before. Please contact us for further information or to discuss your situation; we're here, ready to assist you.

