

Expert comment – 2nd March 2009

Mortgage guarantee insurance – what happened?

*Teresa Noel, owner of Fortnam Smith & Banwell, **team** estate agent in Charmouth and marketing chairperson for Westcountry **team**, explains what happened to mortgage guarantee insurance and why **team** Association has launched a major initiative to bring them back:*



Back in the olden days when a first time buyer, or indeed anyone without much of a deposit, wanted to take out a high loan-to-value mortgage – that is, anything over about 85% - the lender usually insisted that the borrower take out mortgage indemnity guarantee (MIG) cover. This was typically based on a single premium paid upfront, the amount being added to the mortgage loan itself.

Not to be confused with mortgage protection insurance, which pays your mortgage if you are temporarily unable to do so through redundancy or long-term illness, MIGs protected the lender. So, if a borrower defaulted, and the property had to be “force-sold” for less than the outstanding mortgage debt, the lender could claim on this insurance for the shortfall.

For a long time, MIGs were standard - if slightly controversial – practice, but they fell out of favour during the last property recession. Having had an easy time of it for most of the 70’s and 80’s, insurers quickly got cold feet when repossessions reached their height in the late 80s and early 90s, and claims suddenly went through the roof.

As a result, MIGs disappeared – but with prices booming again, no-one cared.

Now, however - with prices falling once more, and with no safety net in place - lenders are hugely risk-averse, and the high loan-to-value mortgages on which most first-time buyers rely are as rare as Bush supporters at Obama’s inauguration!

The paradox is that if lenders could only be persuaded to be a little more adventurous in their lending policies (without a return to the cavalier attitudes that helped get us into this mess in the first place), then this would actually help stabilise the property market.

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An updated version of the MIG scheme could definitely play a part in the market's recovery, which is why Fortnam Smith & Banwell and fellow **team** agents in the region are backing the Association's call to the Government to introduce such a scheme. It would be particularly useful for first-time buyers for whom the current situation is frustrating to say the least – with no stamp duty, reduced prices and mortgage interests at an all-time low, buying is more affordable – but with lenders so risk-averse, they are unwilling to lend the high loan-to-value amounts needed by first-time buyers. At a loan-to-value rate of 85% on a £120,000 property, buyers would need to have saved a deposit of £18,000 while either living with family or paying rent – not an easy task!

“We believe that the introduction of some kind of MIG scheme by the Government would provide the necessary platform to get the market moving again and we are all wholeheartedly in support of **team**'s campaign.”

For further information, a free, no-obligation market valuation or to view a property on the market, call Fortnam Smith & Banwell, **team** estate agent in Charmouth on 01297 560945.

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Digital images are available from bubblepr@mac.com

Notes to editors:

Westcountry **team** is part of **team** Association, the largest organisation for independent estate agents in the UK, with hundreds of members. Westcountry **team** covers Cornwall, Devon and West Dorset, and consists of 70+ members at this time, all of which work together to sell property for clients, and are actively committed to their nominated charity, Macmillan Cancer Support. **team**'s 'blue sky' image, with transparent team logo on a blue sky background reflects the association's and each individual agent's commitment to providing a clear, transparent service to their clients and conducting business in a straightforward, honest and professional way.

For further information, please contact:

Samantha Mason, Bubble Public Relations. Tel: 01869 248524. Mobile: 07957 364179. Email:bubblepr@mac.com.

Teresa Noel, Fortnam Smith & Banwell, Charmouth. Tel: 01297 560945.

Joanna Marshall, Westcountry team Ltd. Tel: 01395 233750.