**CASE 1226W**

**FLEXIBLE SECURED LOAN**

Mrs GRO-A is a disabled widow with two children. The eldest daughter has suffered from depression following the death of her father in 2001; the son aged 16 has struggled at school and may leave in the summer. Just before Mr GRO-A died, the family moved to a bungalow and took on a new mortgage. The bungalow was more suited to Mrs GRO-A disabilities as well as the deteriorating health of Mr GRO-A. However, the new mortgage is 'interest only' and in 20 years time Mrs GRO-A will still owe Nationwide £61,000 and the property will have to be sold. Susan Daniels is proposing options to enable the capital repayments to be made by The Trust on the basis of a 'flexible charge' on the property.

If Trustees were to approve this route to secure Mrs GRO-A home for the remainder of her lifetime on the basis of a 'flexible equity share loan' it would be setting a precedent which could allow widows in similar circumstances to keep their homes.

**RECOMMENDATION**

That Trustees give serious consideration to this proposal.

Ann Hithersay

MRS GRO-A
2nd May, 2002

I telephoned GRO-A last night who confirmed she was managing financially at present but was still concerned about the mortgage.

As I mentioned in my previous memo of 22nd February (copy attached), the mortgage is "interest only" and since the death of her husband, GRO-A is unable to afford to make any capital repayments.

This means that if GRO-A were to remain in the house until the end of the mortgage term (20 years) the capital sum of £61,000 would still be outstanding.

I calculated that approximately £170 per month needs to be paid to repay the capital over the period and suggested that the Trust might fund this amount.

The property was purchased in March 2001 for £81,000 so there is a good level of equity in the house. The Trust could take some sort of equity share whereby protection would be given on the monthly outlay and by having a stake in any increase in property values.

I do not see this as a significant risk to the Trust as there is sufficient equity in the property and even taking a very modest increase in property values of say, 3% per annum, over a 20 year term the property would have increased to £140,000.

As I have mentioned previously, this problem has arisen due to the poor financial state that widows find themselves in, once their husbands have died, losing the majority of their benefits and having to manage on a very low income.

GRO-A does not appear to be in the least extravagant with money and we have sorted out the small amount of debt that was left when her husband died. She does not have any credit card debts or loans.

22nd February, 2002

TO: ANN

FROM: SUSAN

RE: GRO-A

Ann,

I spoke to GRO-A this morning, she is very happy that you have agreed to pay off her catalogues and overdraft.

You asked me to come up with some thoughts as to the Trust taking a charge on GRO-A s property whilst they were responsible for capital repayments.

As you are aware the mortgage is currently interest only. There are two options:

1. The Trust could make the capital repayments on the mortgage direct to the Nationwide each month. A flexible charge could be taken on the property which would take account of the growing amount that the Trust had paid each year.

   The disadvantage to this method is that because the DSS are paying the interest on the loan, with a repayment mortgage as the loan progresses more capital is paid than interest as the years progress. Thus the DSS's portion of the total mortgage payments will decrease and the Trust's increase.

2. GRO-A could continue with an interest only mortgage and the Trust could give her an amount each month equal to the repayment portion of the loan *(£170 approx) to pay into an ISA.* ***Am I correct that as this is MFT*** **money it is not counted for benefit purposes?** The disadvantage with this method is that an ISA is an investment linked to the stockmarket and funds would have to perform at a certain growth rate in order to repay the loan. (Quotation to follow based on various growth rates).

   Once again the Trust would take a flexible charge on the property.

3. By my calculations at the end of the mortgage term (20 years) the Trust will have repaid about £40,000. Even if you take property values increasing at 3% per annum, this means that GRO-A's house will be worth around £140,000. Therefore I do not see this way of helping GRO-A as being a great risk to the Trust.

It may be that she will not stay in the house for another 20 years and the Trust could recover their loan when the house is sold.

I hope these thoughts are helpful – do let me know if you require any further information.

Regards,

Susan

**REPORT TO THE TRUSTEES**
**VISIT TO MRS GRO-A – GRO-A – 15th FEBRUARY, 2002**

I visited GRO-A who is experiencing financial difficulties. She is finding it very difficult to come to terms with her husband's death and is suffering from depression.

She has one son who is still at school and a daughter who is working in a Nursery and hopes to go to Teacher Training college in September.

Her financial situation is as follows:

| | | |
|---|---|---|
| Assets: | House, bought for £81,000 last year | |
| Liabilities: | Mortgage: | £65,000 |
| | Debts | £ 1,245 (Catalogue + O/draft) |

Monthly Expenditure

| | |
|---|---|
| Mortgage | Interest paid by DSS* |
| Car Running Costs | 120 |
| T.V. | 40 |
| Gas | 35 |
| Electric | 30 |
| Water | 40 |
| House Insurance | 20 |
| Council Tax | On Council Tax Benefit |
| Phone | 40 |
| Food | 240 |
| Emergencies | 120 |
| Total | 685 |

**Income**

**Present**

| | |
|---|---|
| Child Benefit | 62.00 |
| Widows Benefit | 340.00 |
| Trust | 360.00 |
| Income Support | 51.20 |
| Total | 813.00 |

**Concerns**

GRO-A is very concerned about her mortgage, as the DSS are only paying the **interest,** she is worried about capital repayments. The monthly payment that would need to be made is £170 per month so that the loan is repaid at the end of the term.

At some time in the future GRO-A may need a new car.

**Recommendations**

I would suggest that GRO-A's overdraft of £800 and catalogue debt of £445 are repaid (statements enclosed) and that an extra allowance is made to help GRO-A with the capital repayments of her mortgage. The Trust may feel that it wishes to take some sort of equity share with GRO-A as it will be paying the **capital** repayments on her mortgage. A calculation could be made adding the capital payments over the period and working out how much this forms of the overall property value.

When GRO-A's son leaves school her benefits will be reduced to a level at which she will be unable to manage. I note that you have kept GRO-A MFT payments at £360 and would suggest that this continues if possible. When GRO-A's son leaves school, I will review her income/expenditure again and make suitable recommendations.

I talked to GRO-A about returning to work but she is still recovering from a hip operation and hasn't worked for at least 20 years. She has no qualifications and even with retraining in my opinion it would be impossible for her to pay her bills on a salary alone as job prospects in GRO-A are limited.

Finally I also met GRO-A's daughter who is trying to gain a place at Teaching Training College, she is going to ring Ann regarding a letter to her tutor as we previously discussed.

23rd January, 2002

TO: ANN

FROM: SUSAN

RE: MRS GRO-A

I had a long chat with GRO-A last night, she is very worried about her situation generally but firstly I will deal with her mortgage.

Currently interest only is being paid by the DSS to Nationwide, thus at the end of the mortgage term (19 years) the amount of loan £61,000 will still be outstanding.

GRO-A does not wish to consider moving as this is her family home and her two children still live with her. She would like to stay in the property for the foreseeable future.

I worked out that the capital repayment part of the loan is approximately £170 per month, would the Trustees consider making these payments on her behalf and then reviewing the situation after a period of 12 months.

GRO-A wishes to return to work but she has not worked for at least 20 years and thus has no up to date skills. I talked to her about training on computers etc but even if she does this (which she wants to, although she is very frightened about going back to work etc) she will only earn around £160 per week.

The other matter, I wondered if the Trust could help with is GRO-A daughter, GRO-A who is 23. She has a degree but unfortunately only obtained a 3rd class degree. She wants to go into teaching and the local college has informed her that there may be some chance of going on the course. When it came to the end result, they informed her that they could not take her on the course due her 3rd class degree.

Bearing in mind the stress that GRO-A must have been under for years with her father's illness, I wondered (with GRO-A's permission of course) if it were worth you writing to the principal of the college, informing them of the full facts and asking that they give GRO-A a chance. GRO-A has been ill for the last six weeks and from what her Mother says it sounds like she is very depressed and run-down.

As a final point, with most of the surviving partners that we see, once their husband passes away and they loose the majority of their benefits, it is virtually impossible for them to manage, they have no skills to return to the employment market and even if they do, in most areas where they live wages are so low that they still have a real struggle to survive.