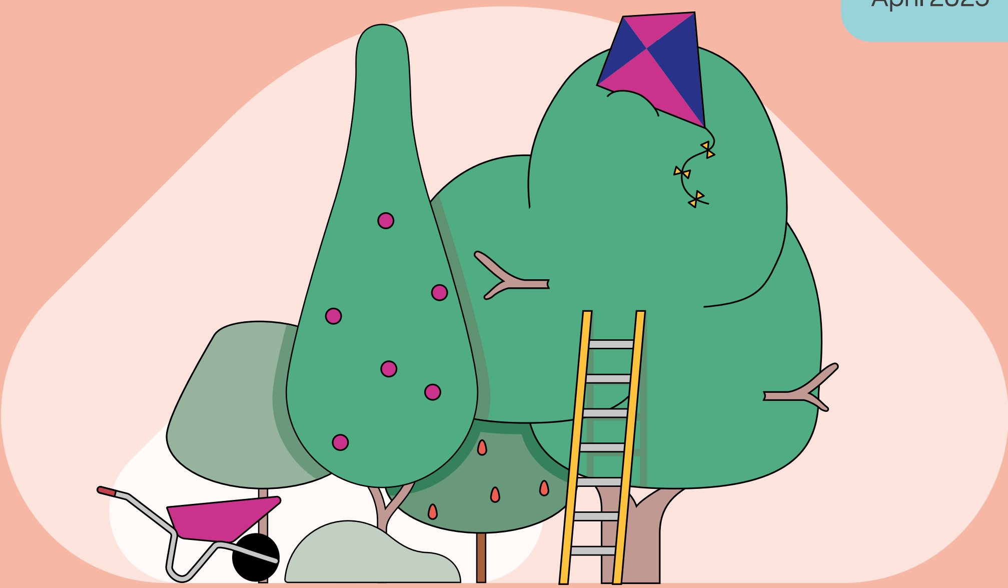
April 2025



Dealing with your endowment mortgage shortfall

- The options available
- Things to consider
- Helping you stay on track

MoneyHelper

HM Government

Making your money and pension choices clearer

Whatever your circumstances, MoneyHelper is on your side. Online and over the phone, we offer clear guidance that's quick to find, easy to use and backed by government. We can also point you to trusted services if you need more support.

We can help you:

- deal with debt
- understand your pension options
- reduce your spending and build up savings
- navigate life events such as redundancy, relationship breakdown, retirement or bereavement
- budget for bills or major purchases
- learn about mortgages and renting
- find out about extra benefits and entitlements.

Just search for MoneyHelper: **moneyhelper.org.uk**

Free impartial guidance
online | over the phone

From

Money & Pensions Service

Here to help you

This guide is for you if you're relying on an endowment policy to repay your mortgage and you've received a shortfall letter.

Lots of people are facing a shortfall on their endowment mortgage because their endowment policies haven't produced the results needed. Act now and it will save you money in the long term.

Follow the steps in this guide to take control of your situation.

Contents

You have several options to deal with or prevent a shortfall on your endowment mortgage – act today.

First things to do

Key actions for taking control

Lots of people are facing a shortfall on their endowment mortgage because their endowment policies haven't produced the results needed. The key is to act now to save you money in the long term.

1. Talk to your lender
If you know you're heading for a shortfall, talk to your lender. There are several options that may be open to you, which are explained in this guide.

2. Make a plan
If you're relying on your endowment policy or other investments to repay your mortgage and you have a shortfall, work out how you're going to deal with it. Explore the different options available and see what could be right for you (see p5).

3. Work out a budget
This will help you see how much extra, if anything, you can afford each month towards the shortfall.

Use our **Budget planner** at **moneyhelper.org.uk/budget-planner**

4. Keep checking you are on track
Regularly review any savings, investment or pension plans you have if you're planning to use them to repay your mortgage. If you haven't already, ask your lender for an up-to-date statement. Request at least one a year so you know if you're on track.

Practical advice

- Act now! The longer you delay, the higher the cost of making up the shortfall will be.
- To help you get your finances back on track, use our online tools like our **Mortgage calculator, Mortgage affordability calculator, Savings calculator, Budget planner** or **Money Midlife MOT**. Search for these tools at **moneyhelper.org.uk**
- Talk to a financial adviser before cashing in your endowment or stopping any other financial plan as a way of raising funds to reduce your mortgage capital – otherwise you could lose out financially.

Important

At the end of your mortgage term, your mortgage must be paid off. If you can't repay your mortgage when it becomes due, you're at risk of losing your home.

What to do if you have received a shortfall letter

Endowment mortgages

You've got an endowment policy and have received a shortfall letter – also known as 'reprojection letters'. Read it carefully as it will tell you if your plan is likely to pay off your mortgage.

These letters use a traffic light system and will be marked:

- **red** if there is a **high risk** the policy is not on track
- **amber** if there is a **significant risk** it's not on track
- **green** if it's **currently on track** to repay your mortgage.

They also tell you:

- the amount of any projected shortfall
- the options open to you, and
- what further action you need to take.

Endowment policies are linked to investments such as bonds and shares, which can vary in value. So **you need to check each reprojection letter**, even if the policy has been on track so far.

If your plan is currently red or amber, talk to your lender now, and find out about how you could make up a shortfall (see p5).

How interest-only mortgage shortfalls occur

With an interest-only mortgage, you pay off only the interest charges but not the mortgage itself (the amount you borrowed – the capital). Most people will have taken out an endowment policy, pension or other investment to pay off the mortgage at the end of the term.

If the investments you intended to use to repay the mortgage haven't produced the results needed, you could find yourself facing a shortfall on the amount you owe.

- If you've got a shortfall, you'll have to meet this out of your own money to pay your mortgage capital on its due date.
- Check your investments regularly to make sure they're on target.

Ways to make up a shortfall

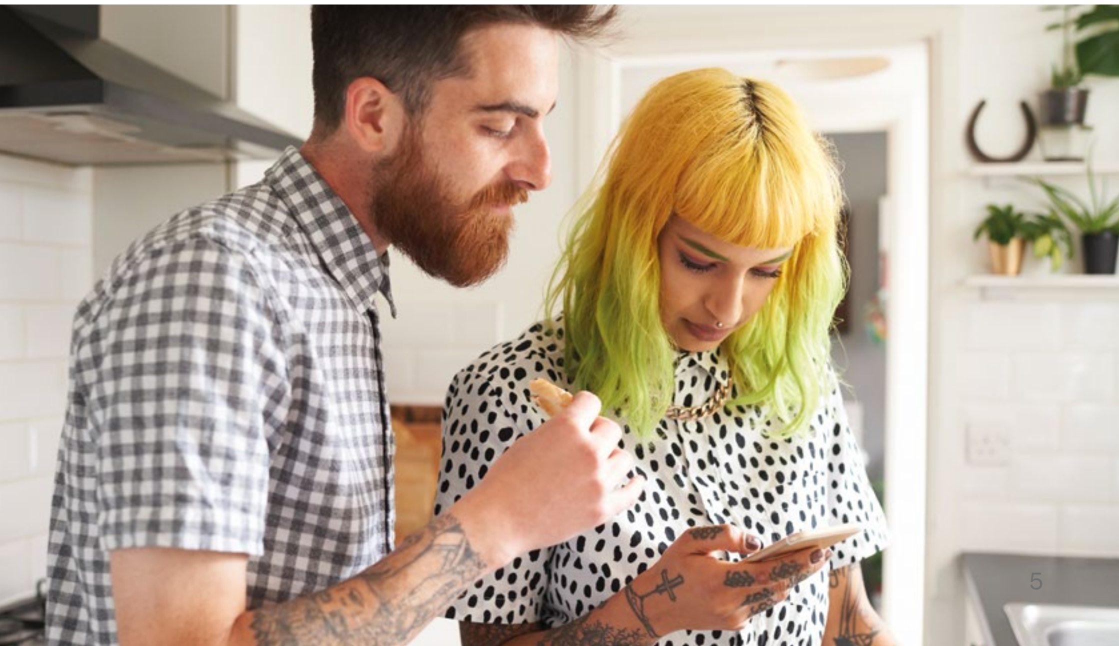
If you need to make up a shortfall or want to reduce the chance of one happening, there are different approaches you can take. Some offer more certainty than others that you will be able to pay off your mortgage capital.

You can:

- make changes to your mortgage to ensure you'll pay off the capital amount
- make changes to your endowment or other repayment plan
- start a new saving or investment plan.

Your lender might allow you to make these changes, but you need to be sure that they are right for you. There are pros and cons to each option. It's a good idea to get professional financial advice about any changes you're thinking about.

See *Useful contacts* on page 17 for details on where to get financial advice.



Changes you can make to your mortgage

Possible change	Pros, cons and questions
Convert the projected shortfall to a repayment mortgage	✗ Your monthly payments will increase. ✓ The shortfall will be paid off by the end of the term if you keep up the payments. ✓ If the shortfall grows, you could switch more of your loan to a repayment mortgage. ✓ Should be simple and easy to arrange.
Switch your whole mortgage to a repayment method	✗ If you cash in your investment you could lose out financially, and you may need to arrange other insurance cover. ✗ Your monthly payments will increase (the longer your mortgage has to run the smaller the increase). ✓ Your mortgage will be paid off in full at the end of the term if you keep up the payments. ✓ If you can afford it, and if your plan is doing well, you could carry on using it for saving to provide a lump sum on maturity. Some investment products include useful insurance cover.
Make lump sum or regular overpayments	✓ Will reduce what you owe and what you need your investment, savings or pension plan to cover. ✓ May be cheaper than saving separately to pay off the shortfall in the future. ? Ask about early repayment charges.

Making one of these changes to your mortgage probably gives you the lowest-risk way of making up a shortfall.

Your questions answered

How much will I have to pay monthly if I switch to repayment?

As an example, a loan repayment of a mortgage of £100,000 and an interest rate of 3.5% with 15 years to run will cost you £715 a month, subject to any additional fees or charges.

Use our **Mortgage calculator** to work out how much your payments would be at **moneyhelper.org.uk/mortgage-calculator**

How can I reduce the monthly payment?

Extending the term of your repayment mortgage by five years could lower your monthly payments. A £100,000 mortgage with 20 years to run at 3.5% interest would be £579.96 a month.

This is £135 a month less. But, remember that it will cost you more over the term of your mortgage.

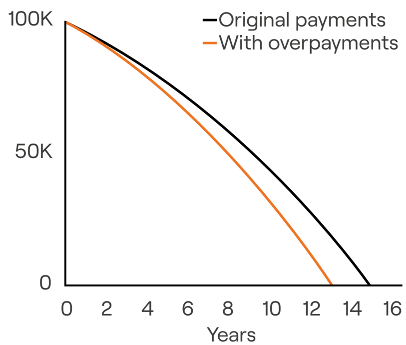
What is the overall effect of extending the term?

The benefit is that it will limit the increase in your monthly payments, but it does mean it will cost you more over the term of the mortgage as it will cost you more in interest – £10,511 in this example.

The benefits of overpaying your mortgage

Overpaying reduces future interest and can mean that you're mortgage free much sooner.

On a £100,000 mortgage at 3.5% with 15 years remaining, paying an extra £60 a month reduces the interest by £3,032 and means you repay 17 months earlier.



The figures mentioned in the example here and on pages 8 and 12 are for illustration only.

If you want to switch to a repayment mortgage, talk to your lender. The increase in payments may not be as much as you think and your lender may come up with a plan that can help you.

An example of how to make up a shortfall

Helen, 48, has an interest-only mortgage of £50,000 linked to an endowment. Her mortgage has seven years left to run and the interest rate is 5.9%.

The problem

Helen got a **red, high-risk shortfall letter** from her provider. She found out that her endowment may only pay £40,000, a shortfall of £10,000.

The solution

To cut the risk of not being able to pay off the mortgage, Helen asked her lender to change £10,000 of her mortgage to the repayment method. She had to go through an affordability assessment to get this mortgage, but she arranged for the shortfall to be repaid over the next seven years.

When the interest-only mortgage ends, which has now been reduced to £40,000, she'll be able to pay it off if her investment produces the projected £40,000.

The costs

Helen's monthly payment of £246 increased to £342 a month to pay for the extra repayment mortgage.

An alternative solution

If Helen couldn't afford the £342 a month, she'd need to ask if she could extend the term of the £10,000 repayment mortgage. Although she would pay less each month, she'd have to pay more in total.

The figures in the illustration above have been rounded to the nearest whole number, so might not reflect the precise totals.

If you get a shortfall letter

If you're facing a shortfall don't delay – act now. Talk to your lender. Work out what your options are and take action to tackle the shortfall.

Changes you can make to your existing endowment plan

By paying more in and/or paying for longer, you can build up a bigger fund to pay off your mortgage.

Possible choices	Pros, cons and questions
Ask to extend the length of your plan	✗ The longer the mortgage term, the more interest you'll pay overall. ✗ Your plan is still linked to the stock market so there's a risk it still won't grow enough to repay your mortgage at the end of the term. ✗ You may face extra charges and a tax liability if you change the terms of your endowment policy. Get professional financial advice first. ✓ This is a good alternative to get you to your target amount if you can't pay more each month. ? Ask if you can extend your mortgage term to match your new endowment plan term.
Top up your plan by paying more each month	✗ Your plan is still linked to the stock market so there's still a risk it won't grow enough. ✗ You could be worse off than if you used the same amount to reduce your mortgage. ✗ You may face extra charges and a tax liability if you change the terms of your endowment policy. Get professional financial advice first. ✗ Some plans may not allow this option.

Key points

- Avoid extending your mortgage and any repayment plan into your retirement unless you and your lender agree it's affordable.
- Never just cash in or stop paying into your plan without getting professional financial advice as you could lose out financially.

Start a new investment or savings plan

Adding a new plan gives you the chance to build up a bigger fund to pay off your mortgage.

Possible choices	Pros, cons and questions
A cash savings account or cash ISA	✔ The amount you get back doesn't depend on how well the stock market performs. ✔ It's a good option for the short term if, for example, your mortgage is near the end of its term. ✔ If you're a taxpayer, you won't pay tax on the interest from your savings in an ISA (for the 2025/26 tax year, the maximum you can save in an ISA is £20,000). ✘ Cash products may not grow enough to meet the shortfall.
An investment (stocks and shares) ISA	✔ Potentially a good way of saving. Historically, over the longer term stocks and shares have grown more than cash savings. ✔ Taxpayers can avoid paying tax on any income or capital gains from investments in an ISA (for the 2025/26 tax year, the maximum you can save in an ISA is £20,000). ✘ It's linked to the stock market so the value of your investment could go down as well as up. ✘ There's no guarantee it will grow enough to meet the shortfall. ✘ It's a long-term product and may not be suitable if you've only got a short time to build up a lump sum.

Key points

- Speak to your mortgage lender to discuss the choices available to you.
- Some options won't be suitable if you only have a short time to make up the potential shortfall.
- Investments give you less certainty that you'll meet a shortfall than using cash savings or paying capital off your mortgage.
- Overpaying your mortgage payments is likely to be better value in the longer term.

The secret of successful saving

Set a clear goal

It helps if you name it, for example 'house fund'

Plan how you'll get there

To help you work out how to meet your savings goal, use our Savings calculator at **moneyhelper.org.uk/savings-calculator**

Achieve your goal

People who set a savings goal save faster than those who don't

Find out more at **moneyhelper.org.uk/how-to-save**

If your mortgage is ending with a shortfall

When your investment pays out at the end of the term, pay all the money into your mortgage to find out exactly how much you still owe. Then talk to your lender as soon as possible.

You might have several options:

- you could **pay the shortfall from savings** you have elsewhere
- you could **sell your property** to repay the mortgage and buy a cheaper property so you don't need a mortgage
- you could discuss **a new repayment period.**

The quickest way might be to carry on with your previous monthly payments. If money is tight, you might be able to agree lower payments over a longer time.

Extending the term into your retirement is not a good idea unless you're sure you can afford it, and you might have to meet the lender's affordability criteria when arranging new mortgage payments.

In general, provided you keep up the new agreed mortgage payments, you should not lose your home as a result of the shortfall.

An example

Joe has come to the end of his mortgage. His interest rate is 3% and he's been paying £143.75 a month. Joe is due to retire in seven years.

The problem

Joe is left owing his mortgage lender £8,000.

The solution

Joe could carry on with his current monthly payment of £143.75. This would repay the remaining capital and interest in five years, and would cost £8,625 in total, but this is more than Joe wants to pay every month.

An alternative solution

Joe has agreed with his lender that he'll repay the £8,000 over seven years and his monthly payment will be £105. This will cost him £8,879 in total.

If you're about to retire and have a shortfall

If you know you're going to have a shortfall, talk to your lender now. Your mortgage lender will be keen to help and will talk through your options. They must make reasonable attempts to reach an agreement with you.

Your options if you can't afford repayments on a shortfall

Use a lump sum from your pension

If you have a defined contribution pension scheme (also known as a money purchase scheme), you can now take all or part of your pension pot as a cash payment and this may help pay off any shortfall. However, it's vital that you talk to Pension Wise (a free service from MoneyHelper) before you choose this option as you need to consider how this will affect your retirement income – and be aware of any tax implications. Visit **moneyhelper.org.uk/pensionwise** or see *Useful contacts* for more details (see p17).

Downsizing

You could sell your property and buy a cheaper one in order to release money to repay the mortgage. However, this is not always as easy as it sounds as it may be difficult to find somewhere suitable in the area you want to live. Also, there are costs involved when you sell or buy property so you'll need to factor these in before deciding whether to go for this option.

Releasing equity from your property

You could consider a scheme where you release some of the equity that you've built up in your home. You could do this through equity release, such as:

- **Home reversion:** you sell all or part of your home at below market value in return for a cash lump sum to repay your existing mortgage and you can continue to live in your home for as long as you wish.
- **Lifetime mortgage:** you take out a secured loan on your home. You're charged interest, which you can either make an optional payment or it can 'roll up'. The loan plus the interest is repaid on death or if you move into residential care.
- **Retirement interest-only mortgage:** you take out a secured loan on your home but you pay the interest as you go along. The original loan is usually repaid either on death or if you move into residential care.

The pros and cons of releasing equity

- ✓ You should be able to stay in your home.
- ✓ You won't have to make up the shortfall.
- ✓ With retirement interest-only mortgages, you always know exactly what you owe.
- ✗ Equity release schemes are complex and there are risks.
- ✗ Some equity release schemes can be expensive and inflexible.
- ✗ Your current or future entitlement to benefits could be affected.
- ✗ With lifetime mortgages, any remaining equity could be eroded by the interest rolling up.
- ✗ With home reversion plans, you won't receive the full value of your home.
- ✗ With retirement interest-only mortgages, you must be able to demonstrate that you can afford the interest payments.

You need to get regulated financial advice from someone qualified to give advice on equity release schemes or give mortgage advice on retirement interest-only mortgages. Speak to an equity release adviser or mortgage adviser before deciding on any equity release product – see *Useful contacts* on page 17.

For more on equity release schemes, visit **moneyhelper.org.uk/equity-release**

Before you decide

Speak to your lender

Talk to your mortgage lender and see what options are available to you. Ask about any costs and charges that might apply.

The sooner you act, the better. The longer you delay, the higher the cost of making up the shortfall.

Don't forget your budget

When you're thinking about your options, work out what you can realistically afford after taking into account your other essential expenses. This will help you decide on the best solution for you.

Use our **Budget planner** at **moneyhelper.org.uk/budget-planner**

If money is tight, you might need to ask your provider if they'll let you extend the term of your mortgage and payment plan if necessary. This should mean your monthly payments won't increase too much.

Bear in mind that extending the term will make your mortgage more expensive in the long term and extending it beyond your retirement date may not be possible.

Get advice

If you're changing your mortgage or your repayment plan, it's important to get professional financial advice – see *Useful contacts* on page 17.

- Check you can afford any new monthly payments.
- Remember to ask your lender about any charges.
- Make sure you still have life insurance if you have dependants and home insurance.

Mortgage affordability calculator

Use our **Mortgage affordability calculator** to help you estimate how much you can afford to borrow, taking into account your income and your outgoings.

Visit **moneyhelper.org.uk/mortgage-affordability-calculator**

Useful contacts

MoneyHelper

MoneyHelper is independent and backed by government to help you make the most of your money. We give free, impartial money and pensions guidance to everyone across the UK – online and over the phone.

Visit us at **moneyhelper.org.uk**

Or contact us via:

Phone

Money guidance
UK: **0800 138 7777**
if you're outside the UK:
+44 20 3553 2279
Mon - Fri 8am to 6pm

Pensions guidance
UK: **0800 011 3797**
if you're outside the UK:
+44 20 7932 5780
Mon - Fri 9am to 5pm

Webchat

moneyhelper.org.uk/moneychat

moneyhelper.org.uk/pensionschat

WhatsApp

+44 7701 342744
(money guidance only)

Online communities

Join our Facebook groups for support: **moneyhelper.org.uk/online-communities**

Free debt advice agencies

StepChange Debt Charity

0800 138 1111
stepchange.org

National Debtline

0808 808 4000
nationaldebtline.org

Finding financial advisers/planners

Equity Release Council

Find out more about equity release schemes and search for an adviser.
03000 120 239
equityreleasecouncil.com

Personal Finance Society

For financial advisers in your area.
thepfs.org/yourmoney/find-an-adviser

Pension Wise

A free service from MoneyHelper providing impartial guidance about your defined contribution pension options.

To qualify for an appointment, you must be 50 years old or over and have a defined contribution pension.
0800 138 3944
moneyhelper.org.uk/pensionwise

Complaints and compensation

Financial Ombudsman Service

0800 023 4567
financial-ombudsman.org.uk

Financial Services Compensation Scheme (FSCS)

0800 678 1100
fscs.org.uk

Cymraeg

This guide is produced by MoneyHelper and is also available in Welsh. To see our full range of guides and request copies visit **moneyhelper.org.uk/free-printed-guides**

Contact us

Money guidance **0800 138 7777**
Mon – Fri 8am to 6pm

Pensions guidance **0800 011 3797**
Mon – Fri 9am to 5pm

Text relay services **18001 0800 915 4622**
Mon – Fri 8am to 6pm

WhatsApp **+44 7701 342744**

Website **moneyhelper.org.uk**

Money Helper

Calls from the UK are free. To help us maintain and improve our service, we may record or monitor calls.

Accessible formats
If you would like this guide in Braille, large print or audio format please contact us on the above numbers. Information correct at time of printing (April 2025). These guides are reviewed once a year.

Ref: DWYMS_Apr25_Ed1_Eng