



# Do you have a Dead Pledge on your Home?

You don't normally associate a mortgage with death (except perhaps the death of your financial freedom) but the word mortgage, which derives from the French language, literally means "dead pledge". It's dead for two reasons, first, if the loan wasn't repaid, the property was forfeit or "dead" to the borrower and second, if the loan was repaid, the pledge itself was dead. The existence and popularity of a mortgage is so obvious that we don't even think about its origins. Mortgages are an English invention, and references to them go back to the 12th Century.

## Who's Mortgage - yours or the Lender's?

It is a common misconception to refer to the loan you obtain from a lender to buy your house as **your mortgage**. In fact, your mortgage is different from **your loan** - your loan is the money provided by the lender to finance the purchase and the mortgage is the security you give to the lender. The money is usually secured against land (in most cases this would be your home) so in effect the lender gains a legal interest in your home and, if necessary, the home can be sold by the lender to recover your outstanding debt. Until that happens, you remain the owner of your home. So, it's your lender's mortgage.

## What's in a Mortgage?

While most lenders have their own form of mortgage, essentially they all say much the same thing - and they are pretty much non-negotiable! So, what do you *really* need to know?

Nowadays, the most common form of mortgage is what is known as an **all obligations mortgage**. This type of mortgage secures all existing and future obligations (essentially all money) which you borrow from, or are otherwise liable to, the lender. This may include credit cards, overdrafts, personal loans and third party lending where you are a guarantor.

When borrowing money, your fundamental responsibility is to repay the principal amount

borrowed and pay all interest and any other amounts (like fees) when due. However, when you grant a mortgage, your responsibilities extend further than simply repaying the money owed. Mortgages will usually require that rates are paid up to date and your home is insured for full replacement value. If you are undertaking a development, the relevant local authority consents have to have been obtained and you are required to obtain the lender's consent before you significantly develop the land.

If you fail to perform any of your responsibilities under the mortgage, the lender may require you to repay **all money** owed to it - including money owed on credit cards, overdrafts and personal loans. If you do not repay the money within the time specified by the lender, the lender may exercise its right to sell your home to cover the money you owe - **a mortgagee sale**.

Lenders are in the money business; not the house selling business and so, in the case of a default, a lender will usually try to work out a solution with you **before** resorting to a mortgagee sale. However, if you find yourself in the position where you are falling behind on repayments or are likely to breach the mortgage by not fulfilling your responsibilities, don't bury your head in the sand - keep your Dead Pledge alive by talking to your lender sooner rather than later.



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