How to repay your mortgage

Financial Services Authority

There are two ways to repay the amount you have borrowed (the 'capital'). We describe them here and set out their advantages and disadvantages overleaf.

You can also 'mix and match' by using a combination of interest-only and repayment mortgages to repay your mortgage loan.

Repayment mortgage (also called a capital-and-interest loan) – your monthly payments gradually pay off the amount you owe as well as paying the interest charged on the loan. Provided you make all the agreed payments, the loan will be fully paid off by the end of the mortgage term.

Interest-only mortgage – your monthly payments cover only the interest on the loan. They do not pay off any of the capital. You will need to arrange to pay separately into a savings or investment plan to build up a lump sum to pay off the mortgage at the end of the term. See *Step 8 How to repay your mortgage – interest-only*. It is your responsibility to make sure you have enough money to repay the mortgage at the end of the term, otherwise you could lose your home.

The diagram shows how the two repayment methods work.

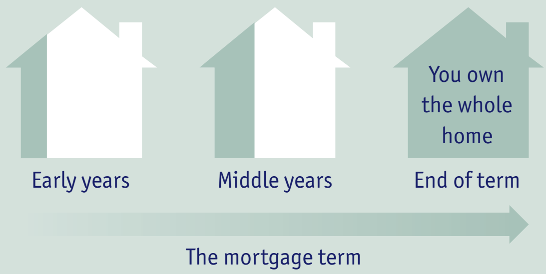
The two ways to repay your mortgage – how they work

Key to diagrams

- The part of the home that you 'own' (ie your deposit and capital repaid so far)
- The mortgage loan (ie the part of the home 'owned' by the lender)
- Lump sum built up so far

Repayment mortgage

Your monthly payments gradually pay off the loan as well as the interest.

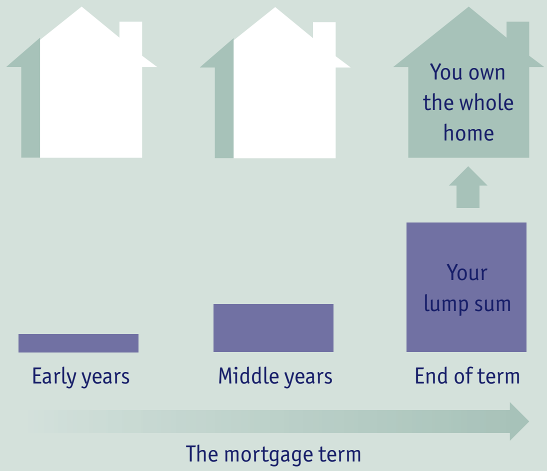


Interest-only mortgage

Your monthly payments only pay the mortgage interest. The size of the loan usually stays the same;

and

usually, you also make a separate payment each month into a savings or invesment plan to build up a lump sum. At the end of the term the lump sum should pay off the loan. But you will need to review regularly to make sure it's on track to do so.



	Repayment mortgage	Interest-only mortgage
Will it pay off the mortgage?	Yes – as long as you make all the payments agreed with the lender, the whole loan will be repaid by the end of the mortgage term.	No, not on its own. You need to have some other arrangement for repaying the loan. You will need to make monthly payments to a savings or investment plan to build up a lump sum. But there is a risk that the plan will not grow enough to pay off the mortgage in full. See *Step 8 How to repay your mortgage – interest-only*.
What if interest rates go up?	It doesn't matter which method you have, if interest rates rise, your payments will normally increase (unless you have a fixed interest rate) – see *Step 4 Which interest rate deal?*	
Moving home and remortgaging Whether you stay with the same lender or take a mortgage with a new lender, you will need to repay the mortgage and start a new one.	You will usually have paid off some of the 'capital' and so will need to pay back less than you borrowed. When arranging your new mortgage, even if you are borrowing more, see if you can afford the new monthly payments over the term that you had left on the last mortgage – you don't have to take a repayment mortgage over 25 years.	Because you won't have repaid any 'capital' you will need to pay off the same amount that you borrowed. But you can carry over any accompanying savings or investment plan to your new mortgage and the mortgage term for this part of the loan will be what's left of the term of the plan (that is, you don't need to start a savings or investment plan again). If the new mortgage is bigger than the old one, you need to decide how you will pay off the extra loan (you could choose either repayment or interest-only).
What if you run into problems keeping up your monthly payments?	You could ask your lender to extend the term or accept interest-only payments for a while. This reduces the amount you pay each month in the short term but increases the total cost of the loan. Your lender might agree to stop your payments for a while.	Your lender might agree to reduce or stop the mortgage payments for a while. But you will not necessarily be able to reduce the amount you pay each month into a savings or investment plan (particularly if it is an endowment policy).
Is this a suitable mortgage for you?	Yes, if you want to be absolutely sure that your loan will be fully repaid at the end of the term. Don't forget your monthly payments could increase if interest rates rise.	Whether an interest-only mortgage suits you depends on whether you're comfortable taking the risk of repaying your mortgage with a savings or investment plan linked to the stockmarket. If you are not comfortable with this risk, a repayment mortgage is likely to be a better choice.