

Part Repayment Part Interest Only Mortgages

With a part interest only and part repayment type mortgage, your monthly payments go towards two elements of the loan:

You pay only the interest charged on the Interest Only element. You are not paying any of the debt itself, so this part does not reduce.

For the other element (the Repayment part), you pay the interest charged on that element of the loan plus an amount of capital towards the debt. If you keep up the monthly payments, this part of the overall mortgage will be paid off by the end of the term.

As an example, if you borrow £200,000 over 10 years of which £100,000 is the interest only part you will still owe £100,000 at the end of the 10-year term on the whole mortgage.

For the interest only part of your mortgage you must have a plan in place to repay your loan at the end of the term. This is called a repayment strategy and the strategy must be plausible to the mortgage provider for them to accept it.

There are several possible repayment strategies that could be accepted by a lender. For example, you may have an investment fund, such as an ISA, that you are paying into that you predict will be of sufficient value to repay your debt at the end of the term.

Another option could be the plan that you intend to downsize (where you sell your property and buy a cheaper one using the equity to repay your loan). This may be acceptable to some lenders but only where there is likely to be sufficient equity at the end of the term, to enable you buy a house that will suit your needs at that time.

You may have chosen a different strategy as part of your application, but your adviser will have explained the pros and cons of proceeding on an interest only mortgage.

There are several possible advantages to you for having part of your mortgage on an interest only basis, but it is important to understand the risks.

Very few strategies can offer a guarantee to repay your mortgage in full. Most forms of investment carry a risk of losing some or all your capital or not performing as expected. If your strategy does not cover the full amount of your mortgage, you will be responsible for paying the difference.

In opting for a part interest only part repayment mortgage you have made it clear through the process with your mortgage adviser that you understand these risks.

Your mortgage provider will write to you each year to remind you of your debt and ask you to ensure your repayment strategy is on track. It is your responsibility to review this regularly and take appropriate action as soon as possible if your strategy is falling short of your current expectations.