

Interest Only Mortgages



FPM
Advice Centre

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WHAT IS AN INTEREST ONLY MORTGAGE?

As its name suggests an interest only mortgage is one where you only repay the interest each month.

This means that you never reduce the amount outstanding. For example: if you borrow £100,000 over a 25 year period and keep up to date with all the interest payments you will still owe £100,000 at the end of the 25 year term.

HOW DO I PAY OFF MY INTEREST ONLY MORTGAGE AT THE END OF THE TERM?

Here are some typical options but by no means all.

Lump sum payments from:-

- An existing endowment policy (new plans are generally not available)
* There is NO GUARANTEE that the value of the policy will be enough to pay off your mortgage at the end of the term.
- Proceeds of an ISA or other investment/savings plan
- Lump sum from a pension arrangement. This will reduce your potential retirement benefits.
- Changing to a repayment mortgage at a later stage. A repayment mortgage is one on which you pay the interest due each month and in addition an amount towards paying off the balance. Changing to a repayment mortgage at a later date will mean your payments will become higher than if you had started with a repayment mortgage from the beginning. The longer you pay off interest only, the more expensive this conversion will become.

- Inheritance or investments.
Some people rely on inheritance they may be due to receive or other investments such as stocks and shares.

Whatever your circumstances it is important that you have a plan for how you intend to pay off your mortgage at the end of the term. All of the above options carry an element of risk and you should discuss all of your circumstances with your financial adviser so that you can make an informed choice on what is best for you.

- Sale of the property, perhaps to a less expensive home with NO mortgage.

The following examples are based on a £100,000 mortgage taken over 25 years assuming a constant interest rate of 5% (5.0% APR)

a). CAPITAL REPAYMENT MORTGAGE

£584.59 per month
Amount outstanding after:-

5 years 10 years 15 years 20 years 25 years



£88,580



£73,924



£55,116



£30,978

£0

b). INTEREST ONLY MORTGAGE

£416.67 per month
Amount outstanding after:-

5 years 10 years 15 years 20 years 25 years



£100,000



£100,000



£100,000



£100,000



£100,000

Remaining on INTEREST ONLY will mean maintaining a mortgage into retirement. THIS COULD PUT YOUR SAVINGS OR HOME AT RISK.



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