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There has been much in the media recently about the risks that are now being highlighted in connection with certain types of mortgages.

An Interest Only Mortgage can appear to be a tempting way of buying a property. Over the past decade Interest Only Mortgages have become more popular as they can appear to be a more affordable way of assisting in property purchase. But is this really the case? Remember that, with an Interest Only Mortgage, you do just as it says – you only pay the interest. At the end of the term the amount borrowed to buy the property is still outstanding, unless a separate repayment vehicle is arranged.

If you compare an Interest Only Mortgage with a Repayment Mortgage, the difference in total repayment costs may surprise many. If you effect a Repayment Mortgage for £100,000 over 25 years the monthly payment would typically be £614.09 compared to £458.33 with an Interest Only Mortgage. However, at the end of the term the total cost of the Repayment Mortgage would have been £184.227 whilst the Interest Only Mortgage, where the full mortgage would remain outstanding throughout the 25 year term, would have cost a total of £237,499. The additional cost of the Interest Only method would be £53,272. (Source: http://www.lovemoney.com/news/mortgages).

In addition to the above, lenders and the Financial Services Authority are becoming increasingly wary of Interest Only Mortgages, especially where the repayment plan is unclear and in some cases non-existent. The FSA recently stated their intention to clamp down on Interest Only Mortgages (Source:http://www.mortgagestrategy.co.uk/regulation/-fsa-to-crackdown-on-interest-only). Lloyds Banking Group have also announced that they will no longer provide Interest Only Mortgages over £500,000.(Source: http://www.guardian.co.uk/money/2010/may).

Interest Only Mortgages will have a niche place in the mortgage market and can be the right solution for some clients. However, putting a repayment plan in place may become more important or even a requirement over time.

In consequence I would suggest that now may be a good time to review your current mortgage arrangements with your adviser who would be happy to discuss your needs with you to ensure your mortgage is appropriate for you in these changing times.

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