Interest-only mortgages require good planning

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Press Release Summary: Responding to the news that over one million homeowners on interest-only mortgages do not have a specific repayment plan for their remaining mortgage capital, financial solutions company Think Money have emphasised the importance of good future planning with regard to interest-only mortgages, and have advised anyone looking to take out a mortgage to seek expert mortgage advice beforehand.

Press Release Body: Responding to the news that over a million homebuyers have been offered interest-only mortgages with no savings plan to repay the remaining mortgagedebt, financial solutions company **Think Money** have advised all homeowners on interest-only mortgages to carefully consider their plan of action for the future, adding that failure to do so could result in significant financial hardship later in life.

LV= estimate there to be around 2.9 million interest-only mortgages active in the UK. Of these, the report claims that 1.3 million – accounting for £74 billion of mortgages – have no specific savings plan in place to pay off their remaining mortgage debt once the interest-only period expires.

That means that around 45% of interest-only mortgages carry no specific capital repayment plan. LV= claim that 41% of these homeowners are relying on rising property value and cashing in equity to pay off the remaining mortgage capital, while 21% plan on using other investments.

More worryingly, 13% of respondents said that they did not know how they would pay off their remaining mortgage capital, while 12% said they hadn't given the matter any thought.

Mike Rogers, LV= Group Chief Executive, commented that the previously booming housing market led many interest-only mortgage holders to believe the increased equity in their home at the end of the interest-only period would enable them to repay the mortgage, adding: "Many of the homeowners we polled appear to have an over-optimistic outlook on their ability to pay off their mortgage capital at the end of the term. Or worse still they are turning a blind eye to the issue."

A mortgage expert for **Think Money** was quick to warn of the dangers of such an attitude towards interest-only mortgages. "There are two main ideas behind interest-only mortgages. Some homeowners simply want to reduce their mortgage payments in the short term to free up extra funds – after which normal (but slightly higher) mortgage payments resume.

"Others choose to go interest-only for the entire mortgage duration – typically 25 years – in which case the matter of repaying the remaining mortgage capital requires more in-depth planning. It would appear that this is an area which many interest-only mortgage holders have failed to address.

"The advantage of such long-term interest-only mortgages is that it allows control – the homeowner is responsible for saving towards the final mortgage repayment, and they can choose to pay more or less each month if necessary. But this is something which requires great discipline, and it also relies on the homeowner's finances staying relatively consistent for the duration of the mortgage.

“The safest way to run an interest-only mortgage is to agree a capital repayment plan alongside the mortgage – or, at the very least, make frequent, substantial deposits into a savings account. Relying on increased equity or other investments are potentially risky, and could result in the mortgage holder losing their home at the end of the interest-only period.”

The **Think Money** spokesperson also emphasised the importance of professional mortgage advice before making any decisions about mortgages.

“Speaking to a mortgage adviser who knows the market can ensure that the homebuyer is well prepared and fully understands what is involved. That’s especially important with interest-only mortgages, as it’s a matter of the homeowner’s future financial security.”

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