

Take action with your interest-only mortgage now

If you have an interest-only mortgage it's vital to have a plan to pay off the capital

If you don't, you may have to sell your home to repay the mortgage when the term ends. You could also find that you can't move home or remortgage to a cheaper deal if your home has fallen in value, or even remained the same, as some lenders will no longer offer such high loan to property values as they did in the past. Time is short – follow the steps below to get on track.

→ If you don't have a plan...

Act now! Even if you're years away from needing to repay your mortgage, the longer you leave it the fewer options you'll have to get a plan in place and the greater the impact on your budget. You may be able to make changes to your mortgage at any time, even if you're locked into a fixed rate.

Don't forget that it's your responsibility to ensure your chosen repayment plan will cover your mortgage.

Follow these steps:

1. Add up any savings you have already and decide if you could release any money to reduce the loan. Now contact your lender to ask if you can make overpayments. Ask about any fees for doing so.
2. Use the Money Advice Service online **Budget planner** at moneyadvice.service.org.uk/budgetplanner to see how much spare cash you have each month.
3. Contact your lender and ask about switching to a capital and interest mortgage – this means you will start repaying the original loan. Remember to ask about any fees.
4. If your budget is tight, ask about switching to part repayment and part interest-only to start with, or possibly extending the term of your mortgage to give you extra time to pay more towards the original loan.
5. Or speak to a financial adviser to see how much you'd need to start investing now to cover the mortgage by the end of the term – remember the value of investments can rise or fall.

You can search for an adviser on the Money Advice Service website. Go to moneyadvice.service.org.uk/managingmoney and search for 'Choosing a financial adviser'.

→ Have a plan already?

That's great news! However, it's important to check regularly that it's still on track to cover your mortgage. If it's underperforming, the sooner you act, the easier it will be to make up the difference.

Follow these steps:

1. Check how many months and years your mortgage has to run.
2. Contact your investment provider, fund manager or financial adviser and ask if your investments are on track to repay your mortgage at the end of the mortgage term.
3. If they're not, ask for an estimate of how much extra you need to invest in order to have enough to repay your mortgage when it is due to end.
4. Now contact your lender to ask if you can make overpayments. Ask about any fees for doing so, if allowed, and check with your lender if you will have to pay any early payment charges.
5. Use the Money Advice Service online **Budget planner** to work out how much you can afford each month, either to top up your investments or to make overpayments on your mortgage.
6. Ask your lender, investment provider or financial adviser to help you choose the best course of action.

Turn over for *Frequently Asked Questions*



→ Frequently Asked Questions

How does an interest-only mortgage differ from a capital and interest mortgage?

With an interest-only mortgage the payments you make only cover the interest and you do not repay the original loan amount until the final date. For example, if you borrow £100,000 for 25 years, the full £100,000 will be payable at the end of the 25 year term. With a capital and interest mortgage, part of your monthly payments go towards the loan, and the balance is repaid in full at the end of the term.

Why have I received a letter from my lender regarding my interest-only mortgage when I am keeping up with my payments?

Your lender knows your home is important to you and is trying to understand what repayment plan you have in place. So it's worth giving them a call sooner rather than later to discuss your options.

I'm worried that I won't be able to pay off my mortgage - what should I do?

Talk to your lender first – they will be keen to discuss your situation with you and help you work out what options are available if you suspect you will be unable to pay off your mortgage at the agreed date.

Where else can I get advice on what to do about my interest-only mortgage?

If you can't work out a solution with your lender you can get free advice. Search for 'Free financial advice' at moneyadvice.service.org.uk

Will my home be repossessed if I can't repay my mortgage when I am supposed to?

Repossession is only ever a last resort – lenders will always do their utmost to work with you to find a better solution. However, you may have to sell your home to repay your mortgage if you don't have an alternative repayment plan.

You've taken the first step. Now fill in your personalised plan to stay on track:

Action	When	Done
Read this leaflet	Now	✓

Take control of your interest-only mortgage today. Find out more by searching for 'interest-only mortgages' at moneyadvice.service.org.uk

Money Advice Service

The Money Advice Service is independent and set up by government to help people make the most of their money by giving free, impartial money advice to everyone across the UK – online and over the phone.

We give advice, tips and tools on a wide range of money topics.

Visit

moneyadvice.service.org.uk

Or call our Money Advice Line on

0800 138 7777*

Typetalk

1800 1 0300 500 5000

If you would like this guide in Braille, large print or audio format please contact us on the above numbers.

*Calls are free. To help us maintain and improve our service, we may record or monitor calls.

Information correct at time of printing (April 2017)