

# Interest-only mortgages: act now and talk to your lender

If you have an interest-only mortgage, you need to make plans to repay the capital (the amount you borrowed). If you don't, you will have a large amount to pay at the end of your mortgage term and may need to sell your home to repay it.

You might be either unable or unsure of how to change your plans at the moment. Either way, speaking to your lender, mortgage adviser or an independent consumer organisation will help you understand the options you may have to help you improve your plans.



## Act now

- Speak to your lender or mortgage adviser, they may have options which you can discuss together and may give you peace of mind.
- Don't delay – remember it is your responsibility to repay the loan at the end of the term.
- The earlier you speak to your lender or mortgage adviser, the more time you have to make a difference. You may even save on interest charges.
- If you'd rather talk to someone else first, you can get help or advice from the Money Advice Service (MAS), Citizens Advice (CAB), StepChange or other organisations for free.

# Here's what you can do to keep your plans on track:

## Step 1

### Check your current arrangements

- Review your mortgage offer and your latest mortgage statement to check how much you owe and when you're due to repay.
- Check whether you're likely to be able to repay the mortgage in full – eg are your plans on track to give you all the funds you'll need to repay?
- If you plan to sell your property and buy a smaller home, regularly check its value to ensure there is enough money in your home to achieve this.

## Step 2

### Consider your options

- When you've checked your current position, it's time to look at all your options to help you repay your mortgage. Try not to put it off – leaving it later in your mortgage term might limit the options your lender or mortgage adviser can offer you.
- Even if you think you can't afford to do much now, speaking with your lender can still help you understand possible options or changes you may need to make in the future.

### Available options if you can afford to increase your monthly payment

#### Option 1

Changing to a repayment mortgage and paying over the same length of time (the mortgage term)

[Find out more about option 1 on page 4](#)

#### Option 2

Making the term longer – so you have more time to repay it

[Find out more about option 2 on page 4](#)

#### Option 3

Paying off some of the money you owe during the mortgage term and switching to a repayment mortgage to repay the capital by the end of the term

[Find out more about option 3 on page 5](#)

### If you can't afford to increase your monthly payments

You may wonder if talking to your lender can do any good, especially if you can't make any change, even a small one, to your repayment plans. Do still talk to your lender or mortgage adviser – there may be affordable options which could still work for you, such as an interest rate change.

No one can make you pay back your interest-only loan before the end of the mortgage term, unless you break the terms of your mortgage contract, for example, by not paying your regular monthly payments. Your lender or mortgage adviser will discuss your options but how you proceed is up to you.

## Things to consider

**Acting earlier** – you'll probably have more options:

- More likely to be able to switch to repayment
- More likely to be able to switch to part capital repayment
- More likely to be able to extend the term
- More likely to be able to make additional payments on top of your monthly payment
- Prepare for eventual sale of your home

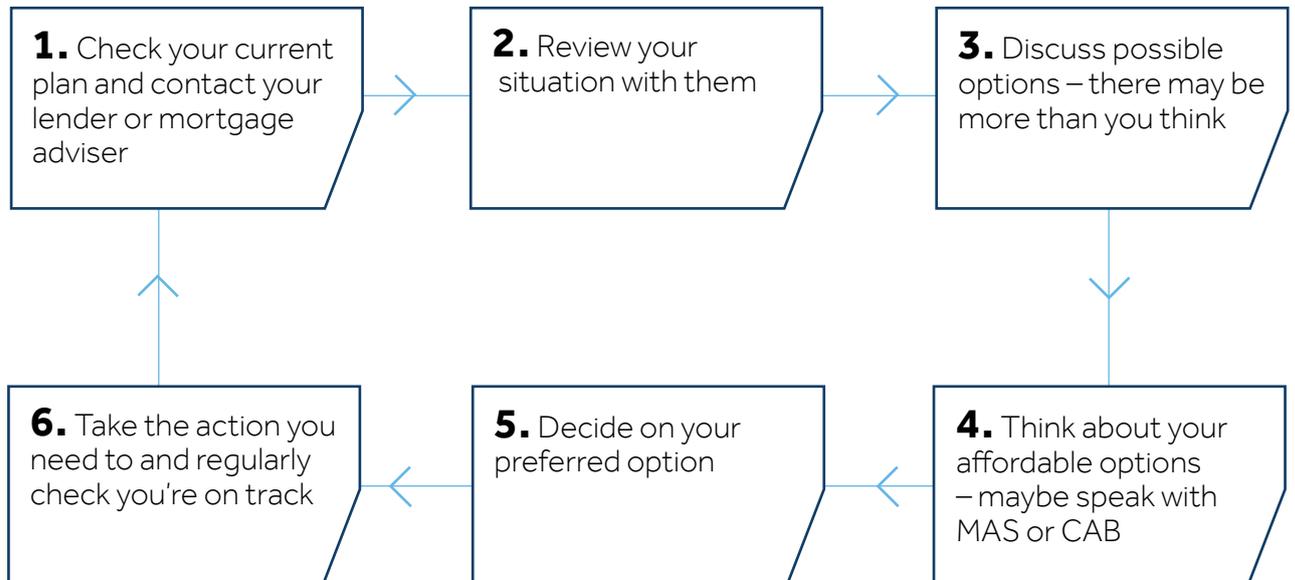
**Acting later** – you'll probably have less options:

- You may have to cash-in investments
- You may have to sell your home
- You may have to explore the possibility of a retirement or lifetime mortgage
- Less likely to be able to extend the term
- Less likely to be able to change how you repay

### Step 3

## Contact your lender or mortgage adviser

When you are ready to speak to your lender or mortgage adviser, it should be straightforward to talk through your circumstances together.



**Option 1**

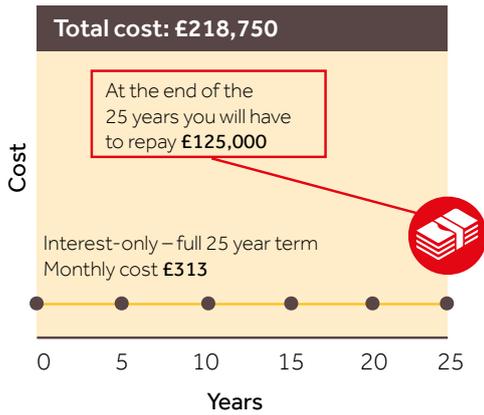
**Changing to a repayment mortgage and paying over the same length of time (the mortgage term)**

You may be able to change to a repayment mortgage. This means your monthly payments go towards both the interest and the outstanding balance.

In this example, your mortgage balance is £125,000 with a term of 25 years. You took out

an interest-only mortgage with no repayment plan. The interest rate is 3% and your monthly payments are £313. If you had taken out a repayment mortgage from the start, your monthly payments would be £593.

**Keeping your mortgage as it is**



**Switch to repayment with 15 years of your original term left**



**Switch to repayment with 10 years of your original term left**



**Option 2**

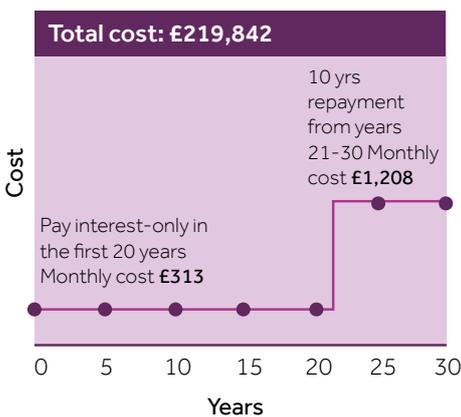
**Making the term longer – so you have more time to repay it**

You may be able to change your mortgage term to allow a switch to repayment, so you are repaying some of the outstanding mortgage balance with each monthly payment.

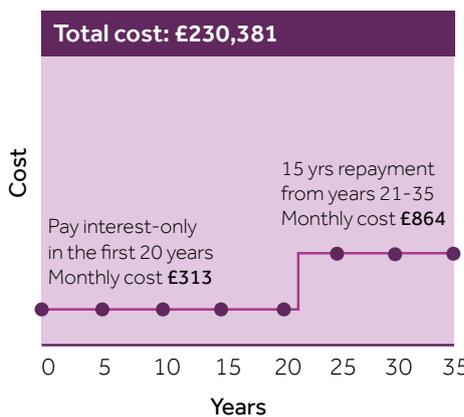
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**After 20 years, your term is extended by 5 years to allow a switch to repayment – making the total term 30 years**



**After 20 years, your term is extended by 10 years to allow a switch to repayment – making the total term 35 years**



**After 25 years, your term is extended by 10 years to allow a switch to repayment – making the total term 35 years**



### Option 3

## Paying off some of the money you owe during the mortgage term and switching to a repayment mortgage to repay the capital by the end of the term

You may have enough to repay part of the outstanding balance, but not enough to repay it all.

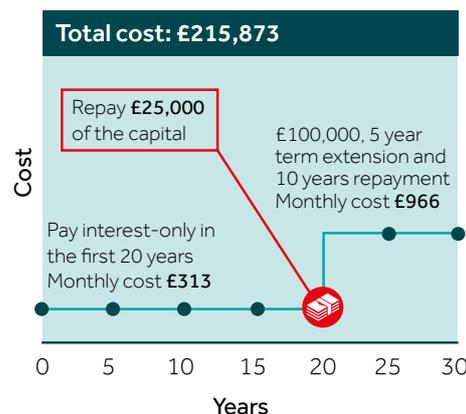
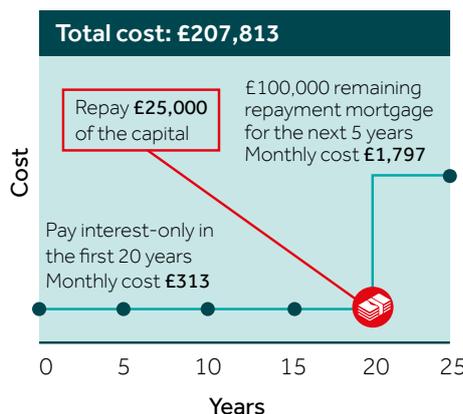
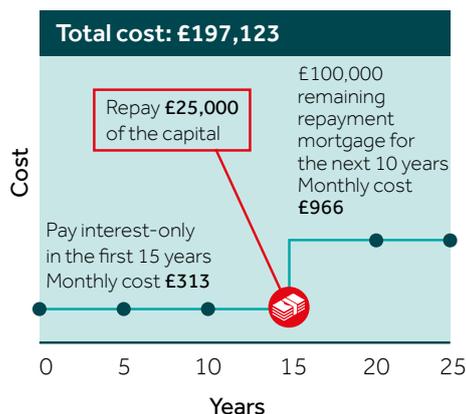
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**You repay some of the capital in year 15 and switch to a repayment mortgage for the last 10 years**

**You repay some of the capital in year 20 and switch to a repayment mortgage for the last 5 years**

**You repay some of the capital in year 20 and switch to a 10-year repayment mortgage which adds another 5 years to the term**



Other options may be available to you from your lender or mortgage adviser.

The examples shown are for illustrative purposes only where the illustrated rise is not a true reflection of the change in payment and may not reflect actual amounts paid by customers. Costs have been rounded up in all instances. There are other ways to pay off the mortgage balance. Data used – FCA PSD007 (Mortgage Performance Data) for H1 2017 and states the median interest-only and part capital repayment mortgage balance.

## Further help and advice

You can contact the following organisations for free, confidential and impartial advice, and on where to get this advice in your area.

**Money Advice Service** – For free, unbiased and easy-to-access money tools, information and advice, visit [www.moneyadvice.org.uk](http://www.moneyadvice.org.uk) or phone 0800 138 7777 to speak to a Money Adviser

**Money Advice Scotland** – If you live in Scotland, phone **0141 572 0237** or visit [www.moneyadvice.scotland.org.uk](http://www.moneyadvice.scotland.org.uk) to find contact details for debt advice in your local area

**Citizens Advice** – For advice and information on debt and other topics, visit [www.citizensadvice.org.uk](http://www.citizensadvice.org.uk) or phone 03454 04 05 06

**Stepchange** – For free, and impartial mortgage advice visit [www.stepchange.org/mortgageadvice](http://www.stepchange.org/mortgageadvice) or phone 0800 027 4536 to speak to an advisor

**AdviceUK** – Member centres offer specialist advice for minority communities and people with disabilities – [www.adviceuk.org.uk](http://www.adviceuk.org.uk) or phone 0300 777 0107

### Other useful organisations

#### Civil Legal Advice

You may get legal aid if your home is at risk. Check at [www.gov.uk/civil-legal-advice](http://www.gov.uk/civil-legal-advice) or phone 0345 345 4345

#### Financial Ombudsman Service

If you have a complaint that you can't resolve with your lender or mortgage adviser, the Financial Ombudsman Service may be able to help – phone 0300 123 9123 or 0800 023 4567 or visit [www.financial-ombudsman.org.uk](http://www.financial-ombudsman.org.uk)