The FRS asks about owned accommodation and mortgages taken out to purchase a property and also re-mortgages. There has been a recent move towards more of the new types of ‘flexible’ mortgage accounts. This document outlines the different types, and combinations of mortgages (including both the traditional and the new style options) currently available.

Repayment Mortgage

Payments are made that cover both the interest on the loan and the amount borrowed.

Money borrowed is repaid gradually over an agreed period (for e.g. usually 20-25 years, but this can differ).
On top of this the interest incurred on the loan outstanding is also paid.
Usually mortgage protection policy is taken out with an insurance company. This ensures that in the event of a death there is enough money to pay off the outstanding mortgage. This is ***NOT,*** however, the same as an endowment policy.

Interest Only Mortgages

Payments are made to the lender that cover only the interest on the loan. In many cases linked investments are taken out to pay back the original amount borrowed when the term ends

a) Combined with linked investments
   E.g. PEP, Unit trust, ISA or
b) No linked investments
   Will only be paying off the interest on mortgage

Pension Mortgage

The interest on the mortgage is paid to the lender, and in addition a pension is set up into which monthly contributions are paid. The objective is to repay the mortgage with the personal pension plan at the end of the agreed mortgage term.

Endowment Mortgage

The interest on the mortgage is paid to the lender and in addition a separate endowment policy is arranged, into which contributions are paid. This endowment is then invested in stocks and shares, the value of which can increase or decrease. When the endowment policy matures the money earned is used to pay off the outstanding mortgage in full, though some payments have fallen short of doing so in recent years.

PEP, Unit Trust or ISA Mortgages

In all cases only the interest is paid to the lender.
PEP- monthly contributions have been paid into a Personal Equity Plan that in turn was usually invested in unit trusts.
Unit trust- monthly investments are made into a unit trust savings plan. Depending on stock market prices it may be possible to pay off part of the loan before the final instalment.
ISA- again contributions are made.
It is possible to have more than one type of linked investment. For example one could have a combination of PEP’s and endowments.

For all of these accounts the aim is to use the investment to pay off the mortgage in full at the end of the agreed period

Flexible Mortgages

A fairly new concept whereby mortgages are not a separate entity from other financial areas such as loans, savings and current account. Flexible mortgages allow more control over how the original loan is paid back. The amount paid each month is not inflexible and can change according to personal circumstance, allowing the borrower to tailor repayments to their own needs. Its possible to make lump sum payments, to make overpayments, underpayments or to have payment ‘holidays’.

It is possible to repay the mortgage early, but the total amount borrowed must be paid off in full by the end of the agreed period.

Other features/benefits may include
- No redemption penalties (if you chose to repay the mortgage early)
- Current account facilities
- Daily/Monthly calculation of interest (as opposed to annual)

Flexible mortgages can be repayment, endowment or other investments.