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). Charges may be applied if the loan is paid off early.

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.

Some borrowers may combine a repayment mortgage with an endowment (or interest only) mortgage as a single arrangement, whereby both interest only and interest and capital elements are combined into a single regular payment.

Interest Only Mortgages

Payments are made to the lender to 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. Unit trust, ISA

OR

b) No linked investments
Will only be paying off the interest on mortgage.

However, some borrowers do not set up an investment or savings scheme.

Pension Mortgage (no longer sold)

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 (no longer sold)

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.

Unit Trust or ISA Mortgages (no longer sold)

In all cases only the interest is paid to the lender.

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 ISA’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 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. It is 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 choose 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.

All-in-one-Accounts

This is one of the most popular types of flexible mortgage.

There are 2 types of All-In-One accounts;

1) Current Account Mortgages

E.g. The One Account (RBOS)
Natwest One

Allows all finances to be kept under 'one roof'. Rather than having a separate mortgage, and current account, both are kept together and the funds in the current account are used to offset the interest of the mortgage balance. So for example

A borrower may have a mortgage balance of £60,000 and £2,000 in the current account (salary is likely to get paid into this account) and so the borrower is charged mortgage interest on £58,000. It's akin to having a huge 'overdraft' that slowly over time gets paid off.

As well as combining the current account with the mortgage, it is also possible to combine savings, credit cards and loans resulting in one overall account with one outstanding balance

2) Offset Mortgages

E.g. Barclays Openplan
HSBC Smart mortgage
Halifax Intelligent Finance

This is similar to the Current account mortgage in flexibility.

Again the mortgage interest is calculated based on the overall outstanding balance made up from debits and/or credits acquired from mortgage, loans, current account, savings and credit cards. So it incorporates many of the benefits seen in the all in one accounts. The difference is that although the mortgage is linked to current account/other savings, separate accounts are still kept, rather than having one account overall balance.
Money can still be easily transferred between the different parts of the offset mortgage.

Islamic Mortgages

Islamic mortgages allow Muslims obeying Sharia Law to own property. Under Sharia Law, both paying for and receiving interest is forbidden. With these types of mortgages, a property is purchased on behalf of the client, and is leased back to them over a fixed term. Once, the purchase price is paid in full, the property transfers from the lender, to the client.

This type of mortgage should be recorded as 'another type' of mortgage at the question 'MortType'.

Buy-to-let Mortgages

Buy-to-let mortgages are for those properties purchased for investment. Mortgage lenders in the Buy-to Let scheme will take account of rental income likely to be achieved from a property.

Do **not** include these in questions about Mortgages. The FRS is only interested in mortgages where the respondent is actually resident in the property.

Family Resources Survey

Interviewers' Pocket Guide To Mortgages

Note: this Guide is for interviewer use only. It is not intended to be an authoritative statement on mortgages; it is designed to give FRS interviewers a basic picture of mortgages for which details are required from respondents to the survey.

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