Types of Mortgage

You can choose to pay your mortgage back in the following ways:

- repayment;
- interest-only; or
- a combination of the two.

You'll need to decide which is best for you.

Repayment mortgages

Every month, your payments to the lender go towards reducing the amount you owe as well as paying the interest they charge. So each month you're paying off a small part of your mortgage.

The pros: It's a simple, clear approach - you can see your loan getting smaller.

The cons: In the early years your payments will be mainly interest, so if you want to repay the mortgage or move house in the early years, you'll find that the amount you owe won't have gone down by very much.

Interest-only mortgages

As the name suggests, your monthly payment only pays the interest charges on your loan - you're not actually reducing the loan itself. This is why it's very important you arrange some other way to repay the loan at the end of the term; for example, through an investment or savings plan.

If you choose this option you will need to check that your investment or savings plan grows accordingly, so that at the end of the term you'll have enough money to pay off the loan. If it doesn't grow as planned, you will have a shortfall and you'll need to think about ways of making this up. See How to make up a shortfall, in Publications.

The pros: Because you're only paying off the interest, and not the loan itself, your monthly payments will be lower.

The cons: That debt is not going to go away. Throughout the life of the mortgage, you'll need to check your investment or savings plan is on track to repay your loan at the end of the term. If you can't repay it at the end of the term you could lose your home.

So, choosing a repayment or interest-only mortgage is one decision. The other will be to choose the interest-rate deal. In our Types of interest rate deals section we explain the main types of deals available and in Mortgage features we highlight a few things to watch out for.