

Published based on [How do percentage rates work on mortgages?](#)

How do percentage rates work on mortgages?

I am looking at mortgages and i don't understand how the percentage rate works.

Why do I have to pay double the amount of loan if the percentage rate is 6%?

The percentage rate is the percentage you are charged on the outstanding amount of the loan *per year*. If you borrow £100,000 and pay once per year (to simplify the calculations) you will attract £6,000 of interest. So if you pay £12,000 per year the amount remaining will drop to £94,000.

The next years interest at the same interest rate will be £5640 so if you pay £12,000 again the amount remaining will drop to £87,640. As you see it goes down quite slowly. When you get a mortgage the bank will work out how much you can afford at the current interest rate over the period you want to borrow and tell you how much you can borrow to buy a house.

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