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A mortgage is a special type of loan that is secured by the house bought using the loan. If at any point during the term of the mortgage a borrower is unable to keep up repayments the house used as security will be repossessed by the lender. However, that will only happen as a last resort and after all other avenues to resolve the situation are exhausted. But, because of the severity of this ultimate sanction i.e. losing your home, you should always get independent advice before taking out any type of mortgage.

Below is a brief description of the most popular types of UK mortgages.

Types of UK mortgages:

There are many types of UK mortgages, but the majority will be either repayment - where both the interest and the sum borrowed are paid in full over the term of the loan - or interest-only, where just the interest is repaid and the borrower is still liable for the amount of capital borrowed at the end of the loan term. In some cases UK mortgages can be a combination of both types, where an agreed percentage of the capital borrowed is repaid but there will still be a balance outstanding at the end of the loan.

In cases where interest-only mortgages are taken out, the borrower normally makes separate provision for the repayment of the capital, for example, by investing in an endowment policy, pension or an ISA. The amount accumulated in the investment should at least cover the capital owed on the mortgage when it becomes due. It is important that a borrower makes provision to enable repayment when selecting an interest-only mortgage. It would be unwise to put off making a provision until much later in the loan term, however tempting it might seem as a way of keeping down initial outgoings. This is because generally the longer you have an investment the better it usually performs by way of return, although that is never guaranteed. Again, seek proper professional financial advice before proceeding with any investment.

As well as different ways of repaying your mortgage, there are also different options when it comes to selecting which interest rate to pay.

Mortgage products by interest rate type:

Standard variable mortgages used to be the industry favourite before the mortgage market became as competitive as it is now. This is where the interest rate of the loan will vary in line with the Bank of England interest rate. So, if the interest rate goes up, so do the repayments and vice versa. This type of UK mortgage usually has no penalty in the case of early redemption.

Fixed rate mortgages have the interest charged on the loan fixed for a pre-determined period from one year upwards. Some lenders even offer mortgages that have the interest rate fixed over the entire length of the mortgage. But be aware that arrangement fees are normally payable with this type of mortgage and there is generally an early redemption penalty.

Capped rate mortgages have an interest rate that will vary in line with the Bank of England rate, but are guaranteed not to exceed a particular rate - the capped rate - during a fixed period after taking out the mortgage.

Discounted rate mortgages have an interest rate that is heavily discounted in the first few years of the loan, usually offering quite a significant saving on the prevailing interest rate at the beginning of the loan.

Special offers:

In addition to the different types of mortgages many lenders offer cashback deals on their mortgage products. This is an initiative designed to help the borrower meet the considerable costs of a house purchase. With cashback deals there is normally a penalty in cases of early redemption; in most cases the borrower will need to pay back a proportion of the cash advanced.

Choose wisely and only after professional advice:

Whatever type of mortgage you choose, ensure that you get proper financial advice and fully understand the pros and cons of the mortgage product you have selected. This article comprises a very brief description of the most popular types of mortgage available, but is not comprehensive and is designed only to be the starting point in your hunt for the ideal mortgage.

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