Mortgage repayment options

It's important that you understand and feel comfortable with how you choose to pay back your mortgage, either on a repayment or interest only basis. What is mortgage repayment? Mortgage repayment refers to the process of repaying a loan taken out to buy a property. Who will need to make mortgage repayments? Mortgage repayments will be necessary for anyone who does not have the cash to buy a property outright. However, there are a number of different ways of tackling mortgage repayments. Some may be better for you than others, but this will depend on your circumstances and the risks you wish to take.

It's very important that you don't ignore any payment problems. Mortgages are 'priority debts', which you should pay off first as your lender could repossess your home and sell it to get their money. Especially it's very important if you have bad credit mortgage. Bear in mind that once you have had a sub prime mortgage or adverse credit mortgage for three years and have managed to meet the repayments on this each month, you will have written yourself a new credit history.

One of the key issues with bad credit mortgages is how you are going to pay it back. There are several aspects to this question, depending on how stable your finances are. One of the early decisions when taking out a bad credit rating mortgage is whether you are going to go for interest only repayment or capital and interest repayment. Each method has its advantages for your bad credit rating mortgage. You will need to think about how you want to structure the mortgage repayment of the capital debt. Do you wish to take out a conventional repayment mortgage, or back your mortgage with an ISA or endowment policy or pension plan? Alternatively you may wish to simply pay the lender the interest on the mortgage with a view to repaying the debt at some time in the future either from your own resources or maybe from the sale of the property.

Let's start discussion with repayment mortgages, where the money you pay each month covers both capital and interest repayments. Part of your monthly payment covers the interest due each month and part goes towards repaying the capital. This usually means that by the end of the agreed term, the mortgage has been paid off completely. The longer your term, the lower your monthly payments will be, but you will pay more interest overall.

There are two main advantages to the borrower when taking out a repayment mortgage:
a) the guarantee that if all payments are made on time the mortgage will have been discharged by the end of the term. b) the borrower can see the mortgage liability diminishing each year. The main disadvantages of a repayment mortgage are listed below: a) during the early years of the mortgage most of the monthly payment is interest. b) the average person moves house approximately 6 times and after each move has to start a new mortgage, therefore restarting the same process of paying mainly interest in the early years.

Other mortgage repayment option is interest-only mortgages, where your monthly payments to Nationwide only cover the interest that's being charged on your mortgage. You pay only the interest each month. The actual amount borrowed doesn't reduce during the life of the mortgage so you need to repay the full capital amount at the end of the mortgage term. Your monthly payments are less than with a repayment mortgage, but you will need to ensure that you have the money available at the end of the term to repay the capital. If you cannot repay the loan at the end of the term, you will have to carry on making interest payments to C&G.

Also you can make a combination of repayment and interest-only mortgages. It is very useful if you manage to land a flexible mortgage deal for your bad credit rating mortgage. A flexible mortgage deal will allow you to take advantage of fluctuating finances by overpaying and underpaying when it is appropriate to do so.

About the Author

Elizabeth Grant is an independent researcher, researching a system of bad credit mortgage in UK and USA.