NEWS

Two thirds of advisers see rise in interest-only mortgages – poll results

by: Anna Sagar

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Around 64 per cent of advisers say they have seen a rise in customers choosing interest-only mortgages in the last year, a Mortgage Solutions poll has found.

According to a *Mortgage Solutions* poll, approximately 46 per cent of advisers surveyed said that they had seen a rise in customers opting for interest-only mortgages to some extent, with a further 18 per cent saying they had seen an increase to a large extent.

Almost 36 per cent of advisers said that they had not seen an increase in customers going for interest-only mortgages.

Interest-only mortgages allow borrowers to pay off just the interest on borrowing each month, as opposed to the capital, with the full amount paid back at the end of the term. This means monthly payments can be lower.

UK Finance figures show that there were 702,000 pure interest-only homeowner mortgages outstanding at the end of 2022, which is 6.9 per cent lower than 2021.

However, with the introduction of the Mortgage Charter measures, which allows a customer to temporarily switch to interest-only payments for six months could lead to heightened interest.

The cost of living crisis has also meant there have been more enquiries for this kind of product and the product is especially popular with buy-to-let landlords.

Ben Perks, managing director at Orchard Financial Advisers, said that it was "no surprise" that interest-only mortgages were on the rise.

He continued: "As people come to the end of their fixed rates, the sudden increase in mortgage payments has forced borrowers to consider interest only just to get by monthly. Household budgets have been stretched significantly and people are doing all they can to alleviate the pressure.

"As rates improve, we should see the uptake in interest-only subside. Hopefully borrowers will then return to repayment mortgages where possible. Interest-only mortgages can be an effective short-term solution to help keep the roof over your head and the payments manageable. But failure to review it and ensure an effective repayment strategy is in place can cause havoc in later years when the mortgage term ends."

'Significant uplift' in interest-only mortgages

Greg Cunnington, chief operating officer at LDNFinance, said that the firm had seen a "quite a significant uplift in interest-only and part and part applications" last year.

He explained: "This was no surprise, as the 'payment shock' of higher mortgage rates saw clients looking to minimise their monthly payment increases, and interest-only became a popular tool for this.

"We saw a lot of remortgage scenarios where clients had taken advantage of the low interest rate environment to mean their lifestyle had been built around kids at private schools, cars on significant monthly finance payments, as well as becoming used to expensive family holidays and so interest-only was used in some scenarios to get used to budgeting based on higher mortgage rates, to then reassess their best option at the end of the renewed mortgage rate period."

Sally Mitchell, business manager and senior mortgage broker at The Mortgage Mum, agreed that there had definitely been more enquiries about interest-only as an option when it comes to choosing a mortgage.

"Clients are naturally drawn to the lower monthly payments that result if you are only paying off the interest and not the original capital sum of the loan. This is a direct result of the current higher mortgage rates and the squeeze on household finances due to the increased cost of living.

"It has also made headlines as an option under the Mortgage Charter, announced by the Chancellor in June 2023, whereby the principal lenders agreed to a number of measures to support existing mortgage customers. One of these was for customers to be able to switch to interest-only payments for six months," she continued.

Mitchell said that interest-only mortgages "carries more risk" as you are left with the initial sum to repay at the end of the term, so it is not usually recommended when buying your primary residence as it may have to be sold off to satisfy the debt.

She said that interest-only was the "preferred method of repayment when it comes to a buy-to-let mortgage".

"These are often investment properties, so the reduced monthly payment is attractive against the monthly rental income. If you have an interest-only mortgage you need to have a good exit strategy and the sale of the investment property is often chosen leaving any residential home risk free.

"Interest-only is definitely a more risky approach to financing a property versus a capital repayment mortgage. Everyone's situation and circumstances are different though, so getting independent advice from a broker is essential," Mitchell added.

'Nobody should take interest-only solely to keep the costs down'

Gary Bush, financial adviser at MortgageShop.com, said interest-only has "always been demanded" by applicants but that's where financial advisers step in and explain that without a sound debt repayment strategy this could create a

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"potential high rental scheme for themselves – the only benefit being the equity growth in the property".

He continued: "We don't find it surprising that members of the public want to take the lowest possible monthly payments at stretched times like these but, from experience advising, it's quite a slog attempting to turn the tide at a later date on an interest-only mortgage to capital and interest repayments.

"It's clear that some applicants with good historical evidence of sizeable annual bonuses being paid in their employment who are happy to agree to utilise this money against their mortgage debt, redemption terms having been taken into account, are good examples of why interest-only for some circumstances is sound advice."

Scott Taylor-Barr, principal adviser at Barnsdale Financial Management, said that it hadn't seen an uptick in interest-only recommendations to clients there had been a rise in interest-only conversations.

He said: "After a chat about the pros and cons of an interest-only mortgage, along with looking at the possible lenders and deals they may be missing by opting for that option, as many lenders have very strict rules about what they consider an appropriate repayment vehicle for interest only loans, the vast majority decide that a repayment mortgage is a better way forward for them, but maybe with a longer term to help manage the repayments."

Michelle Lawson, director at Lawson Financial, continued that interest-only has "always has a place when done correctly".

She added: "Nobody should take interest-only solely to keep the costs down and this is where advice should be sought to ensure the mortgage can and will be paid at the end of its term.

"Most people have also been scared of interest only due to the previous negative publicity when, for some, it would have its benefits. Interest-only ultimately always depends on the individual carrying out their intended actions to repay the debt."

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Anna is a reporter for Mortgage Solutions and assistant editor for Specialist Lending Solutions, both B2B sister titles of YourMoney.com. She has worked as a journalist for over four years, initially in the specialty insurance sector before moving onto mortgages.

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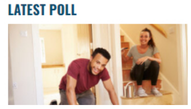

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