

## **Flexible Mortgage Case Study**

Mr and Mrs Jones contacted me because they wanted to discuss increasing their mortgage to pay for home improvements and also to repay a further advance. They were interested in the possibility of a flexible mortgage.

They are borrowing £52,500 against a property value of £180,000. This borrowing is on an interest only basis with 8 years left to run on their mortgage schedule. They are looking to increase their borrowing to £57,500.

They are also concerned that their endowment and mortgage ISA may not generate sufficient to repay their borrowing at the end of 8 years and are not keen to take any further investment risk.

We discussed the types of flexible mortgage available. The basic flexible products allow overpayments that build up a reserve, which can then be used to fund payment holidays. A payment holiday being a gap in payments arranged with the lender. Also they allow extra repayments up to 10% per year without any redemption penalty.

The most sophisticated type of flexible mortgage includes a current account facility, run within the mortgage account. This has full current account facilities – chequebook, cheque card, cash card, standing orders, direct debits – and the account works in the normal manner. The salary comes into the account and this balance is gradually withdrawn over the month. The residual balance has the effect of reducing the amount on which interest is calculated.

An alternative available is to offset a current account with a mortgage account. This has the same effect of reducing the capital balance that is used to calculate interest. The main benefit is that the balance on the current is more visible and it is possible to have an overdraft on the current account, if it is required.

Since the clients were happy with their existing bankers, they decided that they would go for the basic flexible mortgage.

One of their endowments is due to mature in May 2004, so they took a 2-year discount, which would finish at the time that they expect to repay a large chunk of their borrowing. Since this was going to be around £9,500, it was important that this could go to repay their mortgage without a redemption penalty being applied.

Since they are in doubt about the investment potential of their other endowment and mortgage ISA. We arranged for part of the borrowing to be taken on a capital & interest repayment basis. They reduced the interest only element to be repaid by their investment products to £40,000 and took the remaining £17,500 on a capital repayment basis. This would mean that overall their investment products could fall £12,500 short of their target and still repay their borrowing. This leeway was considered to be sufficient, but we would keep reviewing the plans each year.

This arrangement has not reduced their monthly costs, but they are pleased to know that their borrowing is going to be repaid in full by the time they reach age 55.

**Tony Catt**  
**Independent Financial Adviser**