

Choosing From a Mortgage Medley

What is the first thing that you should do when you decide to buy a house? You sift through a series of mortgage loans. How do you decide which is the best mortgage for you? That would be based on how much you would be needing to buy the house and on the rate of interest that you would be able to afford. Generally speaking, the greater the period of the loan, the lower will be the interest rate that you will be charged.

To the extent that we are talking of the mortgage types, there are two major types. On the one hand we have the repayment-only mortgages. On the other hand, we have the interest-only mortgages. Why don't I just explain the two types to you?

Now, repayment-only mortgages consist of two types of repayments. When you decide to select a repayment-only mortgage, you will be paying off monthly installments of both capital and interest. Every now and then you will get the feeling that you are paying much more than you would in other types of mortgages. Well, my advice to you would be not to worry too much about it. The only reason that you seem to be paying more is because you are paying off not just the interest but also parts of the capital.

Let us now talk about interest-only loans. How does this work? Well, if you had been keeping a check on the mortgage markets a few decades ago, you would have heard of the notion of endowment mortgages. If you are unaware as to what an endowment mortgage is, try reading on.

An endowment mortgage is a type of interest-only mortgage where the borrower has to make investments in an endowment fund or some other kind of life assurance policy. Thereafter, the borrower has to pay off only the interest that accrues on the mortgage. The capital is repaid by the endowment fund. Of course, this has its bad points, for the fund's performance is affected by market conditions. In the case of the endowment mortgages in the United Kingdom, these flaws were revealed when the markets collapsed in the 1990s. Mortgagors became helpless victims as the performance of the funds suffered, leading to losses for all.

Endowment mortgages never recovered from the blow that was dealt to them. However, other kinds of more stable, interest-only mortgages are still employed occasionally. Would an interest-only or a repayment mortgage suit you best? In my opinion, that is simply a matter of preference. Both types have their own profits and losses. Make sure that you do thorough research of the mortgage markets before making your final decision.

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