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Should I overpay my mortgage? Finance experts explain what to consider

Wondering if you should overpay your mortgage? We explain what you need to think about before making your decision



(Image credit: Future PLC / Tom Meadows)

BY REBECCA GOODMAN
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Money is tight right now for many households but if you have some savings put aside you may be wondering whether you should overpay your mortgage with it?

But there's a lot to think about before deciding if it's the right move for you. While being mortgage free as early as possible may be one household's ultimate goal, for those with a young family at the bottom of the housing ladder, keeping their monthly mortgage payment as low as possible may be more important.

With **mortgage rates** getting more expensive, overpaying a mortgage might not be for everyone and there are pros and cons to consider.

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Should I overpay my mortgage?

This comes down to a personal decision based on your circumstances. Since the Bank of England increased the base rate, savings rates have risen too. You can now get an easy access savings account rate for more than 3% and fixed term savings accounts for around 4.5%.

A year ago, when savings rates were paltry it made more sense to pay off your debts than earn almost nothing on your savings. So while there are still advantages to overpaying your mortgage, you should consider which makes more financial sense. Check on how the costs involved, including early repayment fees, might change that calculation.

Use our calculator to see how much you might be able to save by overpaying your mortgage:

Before you decide, it's also important to consider if you will need your savings anytime soon. If there's a chance you will, you may prefer to have the cash in an account that you can access when you want to. Some mortgage providers do allow underpayments as well as overpayments. This means you may be able to pay extra now, to reduce your mortgage interest, and then take back some of the cash later, by underpaying for a period.

If your lender does not offer this feature, the only way you can unlock the cash again is by **remortgaging** or asking your lender for a further advance, which is like a second mortgage. Both options are long winded and involve increasing your debt again.



(Image credit: Future PLC)

I'm still on a low fixed rate, should I overpay my mortgage?

Since mortgage rates rose, many people will not have the same amount of spare cash they did this time last year so overpaying may not be an option. But not everyone is feeling the impact of high rates.

Caroline Burke, associate director at broker [largemortgageloans.com](https://www.largemortgageloans.com), says: 'If you're one of the lucky ones still locked into a low fixed rate of less than 2% the advantage of overpaying your mortgage now is to lower your balance. When you remortgage to a higher rate you'll be reducing the impact on your monthly outgoings. By reducing your balance you may also be offered a cheaper deal.'

Lenders offer rates based on how high the value of your mortgage debt is compared to your home's value (called loan to value). If your mortgage is worth 95% of your home's value you'll be offered the highest mortgage rates. If your loan to value is 60% or less, you'll be offered the cheapest rates. By reducing your balance, you may fall into a lower loan-to-value bracket when you remortgage.



(Image credit: Future PLC/ Alison Hammond)

Pros and cons of overpaying your mortgage

Pros

- Reduce the size of your mortgage and pay it off quicker
- Lower your total interest payments

- Lowering the overall balance on your mortgage could mean you are offered better remortgage rates
- If you pay your mortgage off in full, you will no longer have that monthly outgoing
- Suitable for those with savings or enough income to increase monthly payments

Cons

- Not all providers will allow you to make overpayments
- Many providers only allow overpayments of around 10% of the remaining balance
- Could have to pay an early repayment charge
- You'll potentially have to use a large chunk of your savings or pay more each month
- Unsuitable for those without savings or who want to keep monthly repayments as low as possible/

You usually have the option of making a one-off lump sum payment towards your mortgage or increasing the amount you pay back monthly. Even if you're only in a position to reduce the size of your mortgage, a one-off repayment or regular extra repayments is still well worth it.

However, check with your mortgage provider to see what it allows. This is particularly important if your current mortgage offer – a fixed or discounted rate for a set term, for example – still has time to run.

Many providers only allow overpayments of 10 per cent of the remaining balance during this term. By contrast, if your deal has finished and you're now paying your provider's standard variable rate there shouldn't be any limits on the amount you can pay.

Both options will lower your total interest payments, but the former will result in a bigger saving. Also, a lower overall balance on your mortgage could also mean you get a better **remortgage deal**.

If you can pay off your mortgage in full, you'll no longer have to make monthly repayments. Plus, the total cost of the loan will be lower than expected, because you'll be paying interest for a shorter period than you originally anticipated.



(Image credit: Future PLC/Anna Stathaki)

Should I overpay on the mortgage or pay off debts first?

If you have any other debts which you're paying interest on, these should take priority over repaying your mortgage. This is because, in most cases, this debt will be more expensive.

For example, if you're paying interest on a credit card or loan, the rate is likely to be more than the interest rate of your mortgage.

If you have debt you are managing which doesn't charge you any interest – an interest-free loan on a home improvement, say – this falls into a different category. Unless you choose to, there's no need to clear this debt as long as you're comfortable paying it off. Ensure there's no danger of you having to pay interest on it in the future.

How much will it cost to make a mortgage overpayment?



(Image credit: Future PLC)

You may have to pay an early repayment charge when you overpay your mortgage and the amount you'll have to pay will depend on the balance of your mortgage, and how close you are to clearing it completely.

It's important to check with your provider before making an overpayment. They will explain exactly what charges you might incur and that will help give you a fuller picture on whether overpaying your mortgage makes financial sense.

Alternatives to overpaying your mortgage

Overpaying your mortgage is one option for your savings but there are many other places you could put the money. Bank and building savings accounts are just the start, although they do have the benefit of offering you easy access to the money if you need it.

Investing in your pension

Putting money into your pension is another option. Plus, you'll get an extra top up from the government for any money you put in, because tax relief is available on pension contributions. A pension calculator will show you how much you could claim.

Investing in the stock market

Investing in the stock market is another choice. Everyone gets an allowance of £20,000 to put into an individual savings account each year. This money can be invested in a very wide range of assets, including cash savings, but also in shares and bonds. All returns – both income and profit – are then tax free. But remember that there are no guarantees. Investments can fall in value as well as rise.

Split your funds

'If you have a manageable mortgage, and robust finances in general, meanwhile, you might prioritise the potential for extra returns from an investment,' says Sarah Coles, personal finance analyst at Hargreaves Lansdowne. 'Alternatively, you might take the middle way and use some of the cash to pay down your mortgage and some of it to invest.'

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