

What Are The Benefits Of Capped Rate Mortgage?

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When you want to purchase your dream home but don't have the required capital for it, then you should opt for a <http://www.mortgagefit.com> loan. You can get various types of mortgages in the market such as fixed rate mortgage, capped rate mortgage, endowment mortgage and etc. However, in this article we will discuss about capped rate mortgage in detail.

What is a capped rate mortgage?

A capped-rate-mortgage is just like a fixed rate mortgage. The interest rate of a capped-rate-mortgage will not rise above the pre-determined rate, known as cap. Generally, a mortgage lender offers a loan with a capped-rate for a fixed period of time. During this time period, the interest rate on the loan can't rise above this cap. However, if the variable rate of the mortgage drops below this capped rate, then your interest rate will decline along with it.

The benefits of capped-rate-mortgage are given below:

1. **Security:** Capped rate mortgages provide the borrower a sense of security. In a way, it is similar to a fixed rate mortgage. This mortgage is quite similar to a fixed interest loan, meaning the interest rate can only rise to a fixed amount. In case, the base lending rate increases more than the cap rate of the loan, then also the interest rate of the loan will not rise above the cap.

2. **Interest rate:** The interest rates of capped-rate-mortgages fluctuate according to the Bank of England's base lending interest rate. The rate of

interest of the loan will rise and fall during the term of the mortgage loan. Generally, lenders issue capped-rate-mortgages with an initial interest rate. However, if the base lending interest rate falls, then the capped rate mortgage interest rate will also drop. This implies that the borrower has to make lower monthly mortgage payment. The interest rate might drop several times during the mortgage term.

3. Repayment: A capped rate mortgage is also regarded as a repayment mortgage. The monthly mortgage payments includes both capital and interest payments. Every month, the total loan amount is decreased by applying the capital portion of the payment to the actual loan amount. If the borrower can make the required monthly mortgage payments, then the home will lawfully belong to him at the end of the loan term.

Finally, it is much easier to budget monthly mortgage payments with capped rate mortgages. It is true that monthly payments vary during the loan term, but the borrower's utmost monthly payment can be determined at the very beginning. The borrower can easily determine whether he can afford to make the maximum monthly payment.