What is a mortgage?

KS3 KS4 Ages 11-16 ⏰ 4 min read

A house in the UK costs, on average, somewhere between £200,000 and £500,000 depending on where you live. Most people don't have that sitting in their current account. So how does anyone ever buy one?

The answer is a **mortgage** — a very large, long-term loan specifically designed for buying property.

Here's how it works

You find a house you want to buy. Let's say it costs £250,000. You save up a deposit — typically 10% of the purchase price, so £25,000. Then you go to a bank and ask them to lend you the remaining £225,000. That loan is the mortgage.

In return for lending you the money, the bank does two things: it charges you **interest** (so you pay back more than you borrowed), and it takes the house as **security**. That second part is important — if you stop making your monthly payments, the bank has the legal right to take the house back and sell it to recover their money. This is called *repossession*.

Imagine your friend has a bike worth £500 and wants to borrow a fiver. You might say yes, no problem. Now imagine a stranger wants to borrow £225,000. You'd want some guarantee you'll get it back. The bank's guarantee is the house itself — "if you don't pay us back, we keep the house." That's why they'll lend you such a massive amount to someone they barely know.

How long does it take to pay off?

Most mortgages run for 25 years, though many people now take 30 or even 35 years to keep the monthly payments manageable. Every month you pay back a chunk of what you borrowed *plus* interest. By the end of the term, you've paid back the full loan, and the house is entirely yours.

What's "interest rate" got to do with it?

The interest rate is the percentage the bank charges you on top of the loan each year. If your rate is 4%, on a £225,000 mortgage you're paying around £9,000 a year just in interest — on top of the actual repayments. Over 25 years, the total amount you pay back is significantly more than you borrowed. It's why small changes in the interest rate make a huge difference to millions of homeowners.

Fixed vs variable rates

A **fixed rate** means your monthly payments stay the same for a set period (typically 2 or 5 years), regardless of what happens to national interest rates. A **variable rate** moves up or down with the Bank of England base rate. Fixed rates give you certainty; variable rates can save you money if rates fall, but can also hurt if they rise.

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