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Many different mortgage types are available in Holland. Which of the various types best suits your situation depends on your personal circumstances and life style. On the face of it, there appear to be dozens of different ways of setting up a mortgage loan, but if one looks closely, there are only three basic models. In this article it is our intention to give you a crash course in mortgages, so that you will be better equipped to discuss your mortgage needs with your bank or financial advisor.

When taking out a loan, eventually you have to repay the actual loan, plus in the meantime interest on it. In some mortgage models you start repayment of the actual capital from the outset, usually over a long period, say 30 years, whilst also paying interest on the loan. In some other mortgage types you postpone the repayment portion of the loan, simply regularly paying the interest on it,.

There are two capital repayment models: the Annuities Mortgage and the so-called Linear Mortgage.

In an Annuities Mortgage you repay the capital plus interest. The characteristic of an Annuities Mortgage is that in early years you pay a lot of interest and you repay little capital. Towards the end of the mortgage term this turns the other way round, paying off more capital and hence less interest. Another characteristic is that with an Annuities Mortgage you make fixed monthly payments during the mortgage term. (Except of course that the payments may be affected by changes in mortgage interest rates). Due to the redemption (ie the paying-off of the mortgage), the mortgage debt decreases and you pay less and less interest as time goes on. This means however, that your net housing costs will increase a little, since only the interest on the loan is tax deductible (for those of us who are tax payers). In early years of the mortgage term the Annuities Mortgage results in lower monthly payment than a Linear Mortgage.

In a Linear Mortgage you start to repay the mortgage loan by a fixed amount every month. On top of this you pay interest, but the interest payments will reduce over time since you are gradually redeeming the mortgage loan. Since the mortgage amount will actually decrease, so will your interest payments. A linear mortgage can be useful for people who wish to repay their mortgage as quickly as possible and who are expecting a reduction in income sometime in the future. However, the monthly mortgage payments are relatively high in the beginning. If you are a tax payer, this is not an ideal mortgage model either, since you will not be taking full advantage of the tax deductibility of mortgage interest.

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All the other mortgage models are variations on the same theme:

•The Interest Only Mortgage. There are circumstances whereby the bank will actually allow you to just pay interest and repay the capital from savings or investment accounts, giving their name to various different mortgages types linked to an interest only loan:
•Life insurance mortgage (Levenhypotheek): This is linked to a life insurance. The client pays a monthly or an annual premium, which is often invested in a mutual fund. The premium can include life insurance cover. This policy can be tax-free under certain conditions (rather than being taxed in box III at 1,2%).
•Guaranteed Life insurance mortgage (Spaarhypotheek): This mortgage type is also linked to a life insurance, but with a guaranteed return. The interest you get on your premium is equal to the interest you pay, hence you are 100% sure that your mortgage will be repaid at the end of the mortgage term. Again this policy can be tax-free.
•A combination of these two, the Hybrid mortgage (Hybride hypotheek): With this type you can switch from a mutual fund with investment risk to a guaranteed return on your money.
•Investment account mortgage (Beleggingshypotheek): In an Investment account mortgage you invest a certain premium into a stock market account (not an insurance!). This premium can be a lump sum, a monthly or an annual premium.
•Guaranteed Savings Account mortgage (Bankspaarhypotheek): This type of mortgage offers a high level of security. With a Bankspaarhypotheek you will save money at a fixed rate. This rate is equal to the mortgage interest rate, and at the end of the term you will be sure that you have saved enough money to repay the mortgage loan. Simultaneously you are optimizing your tax break, since you are keeping the interest payments constant at their original level. It is also possible to invest rather than save in a Bankspaar account, however there is always some risk involved when investing rather than saving in cash.
So as you can see, the wide variety of what's on offer in the Dutch mortgage market makes it a veritable minefield. But hopefully, this article will have given you a bird's eye view of what's available, allowing you to be at least a little cognisant of the options available before seeking advice from your bank or financial advisor.