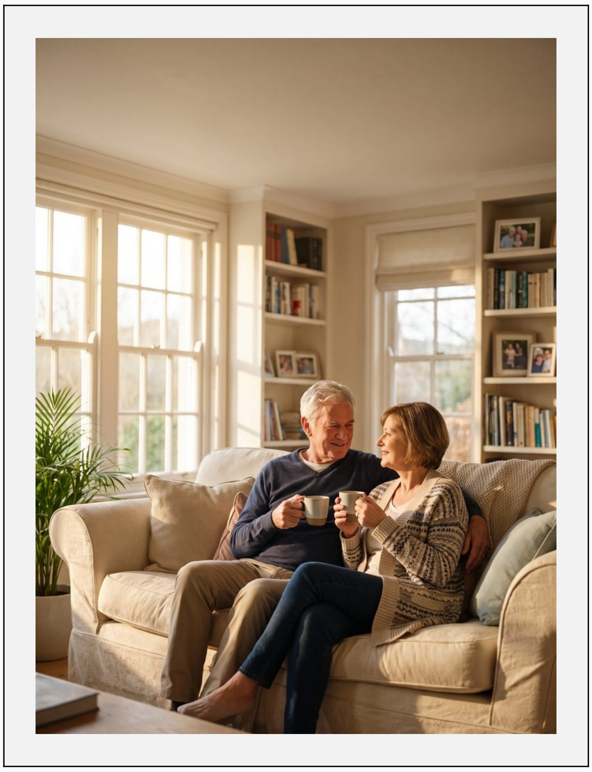
MORTGAGE & FINANCE ARENA
Independent Mortgage & Finance Advice

A CLEAR, NO-JARGON GUIDE

Equity Release vs Retirement Interest Only (RIO) Mortgages in Derbyshire

Two later-life borrowing options for Derby and Derbyshire homeowners, explained and compared



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Before we start

If you've started looking into ways to release money from your home later in life, you've probably come across two names that sound similar but work quite differently: equity release, and Retirement Interest Only mortgages, often shortened to RIO. This guide explains what each one actually involves, and how to think about which might suit you.

What is a Retirement Interest Only mortgage?

A RIO mortgage is a type of mortgage designed for older borrowers, usually those in or approaching retirement. Like a standard interest-only mortgage, you pay the interest each month, but you're never required to repay the loan itself during your lifetime. Instead, the loan is typically repaid when the property is sold, usually when you die or move into long-term care.

Because you're committing to monthly payments, lenders need to check you can actually afford them, both now and in the future. This usually means providing evidence of a reliable income, such as a pension, to cover the interest each month.

What is equity release (a lifetime mortgage)?

A lifetime mortgage, the most common form of equity release, also lets you borrow against your home while keeping full ownership of it. The key difference is that there's no requirement to make any monthly repayments at all. If you don't make any, the interest is added to the loan and builds up over time. Many lifetime mortgages now allow optional repayments if you'd like to slow that build-up, but you're never obliged to make them.

The key differences

Affordability checks

RIO mortgages require proof of ongoing income to cover the monthly interest payments, similar to a standard mortgage application. Lifetime mortgages don't require this kind of income assessment, since there are no required monthly payments to afford in the first place. Eligibility instead depends mainly on your age and your property's value.

Monthly payments

With a RIO mortgage, you commit to paying the interest every month for as long as the mortgage runs, which could be many years. With a lifetime mortgage, monthly payments are entirely optional. This makes lifetime mortgages appealing to people who want to avoid taking on a new fixed monthly outgoing in retirement.

How the balance behaves

With a RIO mortgage, as long as you keep up the monthly interest payments, the amount you originally borrowed stays the same. It doesn't grow. With a lifetime mortgage, if no repayments are made, the balance grows over time as interest compounds, which can mean a considerably larger amount owed after many years.

Who tends to choose which

- RIO mortgages often suit people with a reliable, ongoing income who are comfortable committing to monthly payments, and who want to keep the loan balance from growing
- Lifetime mortgages often suit people who want the flexibility of no required monthly payments, or whose income in retirement doesn't comfortably stretch to a new monthly commitment

Both are regulated, both need advice

RIO mortgages and lifetime mortgages are both regulated by the Financial Conduct Authority, and both should only be arranged through a qualified, FCA-authorised adviser. A good whole-of-market adviser will be able to discuss both options with you and explain honestly which fits your circumstances better.

A few questions worth asking yourself

- Would you be comfortable committing to a monthly payment for the rest of the mortgage term, even if your circumstances change?
- Do you have a reliable income that a lender would accept as proof of affordability?
- Is it important to you that the amount owed doesn't grow over time?
- Would you prefer the flexibility of no required monthly payments, even knowing the balance may grow if you don't make any?

What happens next?

If you're weighing up a RIO mortgage against equity release, a sensible next step is:

- Speak to a whole-of-market, FCA-regulated adviser who can discuss both RIO mortgages and lifetime mortgages with you
- Be honest with yourself and your adviser about your income and how comfortable you'd be with a monthly commitment
- Ask for a like-for-like comparison of the numbers under both options before deciding

At Mortgage & Finance Arena, we're based in Derby and work with homeowners across Derbyshire and the wider East Midlands. We're whole-of-market advisers, so we can talk you through RIO mortgages, lifetime mortgages, and how they compare, honestly and without pushing you towards either.

If you'd like to talk it through with no pressure and no obligation, we're happy to help.

Important information

This guide is for general information only and does not constitute financial advice. Equity release will reduce the value of your estate and may affect your entitlement to means-tested benefits. Think carefully before securing debts against your home. Your home may be repossessed if you do not keep up repayments on a mortgage secured against it. Mortgage & Finance Arena Ltd is authorised and regulated by the Financial Conduct Authority (FCA Ref: 706676) and is a member of the Equity Release Council.