

## **Retirement interest only mortgages (RIOs)**

Retirement interest only mortgages (RIOs) are very similar to normal interest-only mortgages in that you don't repay any of the loan you only pay the interest each month.

The key difference is that you don't need to have a repayment plan to get one. In other words, you don't need to demonstrate that you will eventually be able to repay the loan in full. RIOs are taken for life and are repaid using the equity in your property after you die, sell your home or move into long term care.

### **Who are they for?**

Anyone over the age of 55. They were designed to help those nearing the end of interest-only mortgages who lacked the funds to pay them off. These borrowers can switch from traditional interest-only to a RIO and stay in their home, provided they can pay the interest each month. You can also use RIOs to replace traditional repayment mortgages.

### **What do you have to pay each month?**

You only pay off the interest each month, so the original loan amount never gets any bigger.

### **What about criteria?**

You need to demonstrate that you can afford the monthly interest payments for the rest of your life. When lenders carry out their affordability checks, they will only consider the **guaranteed** income you will receive in retirement. Normal savings and investments won't count but defined benefit pensions and annuities will be considered because they pay out a fixed sum for life. If you are taking out the mortgage with a partner or spouse, then both of you need to show you'll be able to afford the payments on your own should one of you die.

### **What protections do they offer?**

You will never have to repay the loan or sell your home, so long as you continue to pay the monthly interest payments.

### **Does every mortgage sell them?**

Most mortgage brokers and equity release advisers will be able to advise on RIOs but check they are 'whole of market' otherwise they might not be able to get you the best deal.

## **Terms you should know**

### *Whole of market.*

A broker can say they are 'whole of market' if the mortgages they look at for you represent the full range of product features and rates on the market.

### *Second life.*

When a broker or lender refers to 'second life', they are talking about a surviving partner or spouse. This is important for affordability checks, because a couple taking out a RIO must be able to show they can afford the monthly payments on their own, should the other die.

### *Guaranteed income.*

This is the main reason some applicants don't qualify for RIOs, as they cannot cover the interest payments and other household spending with their **guaranteed** income alone. Guaranteed income doesn't include funds you can draw down early or at will.

## **What other product features are there?**

Some RIOs allow you to repay some of the loan as well as the interest. Others run for set periods. For example, you can take out a RIO that needs to be repaid after a certain number of years or when you reach a particular age.

## **Are there any other differences?**

RIO interest rates are often a little bit lower than lifetime mortgages, which is the most popular type of equity release. However, RIOs tend to run for a limited term so you might have to remortgage after say five years. As the name implies a lifetime mortgage is designed to run for the life of the customer, if it needs to.

## **How long does it take to get a RIO?**

You'll normally complete a RIO in four to eight weeks.

## **Where can I find out more?**

Many equity release advisers can also provide RIOs