Tempted by equity release? You could save thousands with a retirement interest-only mortgage instead

- **The equity release market has ballooned, with rates still at an all-time low**
- **But the debt snowballs every month and can wipe out the value of your home**
- **Experts say a retirement interest-only mortgage may be a cheaper alternative**
- **A couple who borrow £50,000 could save up to £38,000 over 20 years**

By BEN WILKINSON FOR THE DAILY MAIL
PUBLISHED: 21:50 GMT, 7 January 2020 | **UPDATED:** 09:57 GMT, 8 January 2020

Older homeowners in need of extra cash in retirement could end up tens of thousands of pounds worse off if they turn to the booming equity release market without considering all their options.

Analysis by financial data experts Defaqto shows a couple who borrow £50,000 could save up to £38,000 over 20 years by opting for a retirement interest-only could save up to £38,000 over 20 years by opting for a retirement interest-only mortgage instead.

The findings come as record numbers of homeowners aged 55 and over turn to equity release — a cash lump-sum based on the value of their property that is paid off when they die or go into care — with £2.8 billion borrowed in the first nine months of 2019 alone.

Home economics: A couple who borrow £50,000 could save up to £38,000 over 20 years by opting for a retirement interest-only mortgage instead of equity release

The equity release market has ballooned in recent years — with a new product launched every 48 hours in 2019 and interest rates still at an all-time low.

The loans can help homeowners who are property rich but cash poor access money they need to clear debt, help their loved ones and enjoy their retirement.

But they also come with compounding interest rates, meaning debt snowballs every month and can wipe out the value of your home, leaving your family with no inheritance.

The Financial Conduct Authority regulator has also recently turned its attention to the industry over fears of mis-selling. Experts now say a retirement interest-only mortgage may be a less costly alternative.

The loans allow you to borrow against your property and only pay back the interest each month.

Typically, you will then repay the loan when you sell up, die or move into care. But some retirement interest-only loans might require you to pay the sum back in full after a set number of years or when you reach a certain age.

The new loans were launched in March 2018, but only 660 had been taken out by July last year.

The FCA had previously estimated around 21,000 of the mortgages, worth £1.7 billion, would be sold every year by 2021.

Figures from Defaqto show a 65-year-old with a £250,000 home looking to borrow £50,000 would pay back £123,756 over 20 years with an equity release loan at the average rate of 4.54 per cent.

Yet if the same homeowner was able to take out a retirement interest-only mortgage at the average rate of 3.57 per cent, they would pay interest of £35,700 on top of the £50,000 loan.

Assuming house prices grew at a rate of 2.5 per cent, their home would be worth close to £410,000 after 20 years.

But an equity release loan would have consumed nearly a third of the value of the property — leaving the owner with just 70 per cent after two decades, whereas with the interest-only loan, after making monthly repayments for the 20 years, you'd be left with the £50,000 debt — just 12 per cent of the value of your home.

Equity release loans come with compounding interest rates, meaning debt snowballs every month and can wipe out the value of your home, leaving your family with no inheritance

Yet, inflation can also eat away at the value of the equity release loan.

Equity release rates have plunged in the last 18 months, with the average rate offered falling from 5.4 per cent to 4.55 per cent today, according to data from Defaqto. The lowest interest rate currently available is 2.84 per cent from more2life.

In the past, the loans have come under fire for high interest rates — which, in some cases, have left the homeowner in negative equity and unable to move.

Now, some deals come with no-negative-equity guarantee and even allow borrowers to take the loan with them when they move.

Some also allow customers to repay the interest each month.

But for older borrowers with an income, an interest-only mortgage may work out cheaper. The loans, like an ordinary mortgage, are taken out against the property and the borrower must then make monthly repayments.

Borrowers have to be 55 or over and own their home outright. They also have to undergo affordability tests and will need a steady income such as a defined benefit pension or an annuity.

Just like with equity release, rates have also dropped and the lowest available today is 2.79 per cent from Marsden Building Society.

Baroness Ros Altmann, a consumer campaigner for the elderly, says that borrowers were often unaware of how quickly an equity release loan can eat away into the value of their home.

She says: 'The roll up of equity release is quite pernicious and people do not realise how dangerous it can be.

'It may seem fine in the short term, but in the long term it can take away your options and leave you unable to afford to downsize. Before you do anything you should get proper advice and look at the risks.'

Retirement interest-only mortgages do have catches. The interest rate is not guaranteed beyond the fixed period and can rise later on.

Your home could also be repossessed if you fail to keep up with repayments, and the lender might expect the loan to be repaid in full at the end of the term.

Brian Brown, consumer finance expert at Defaqto, says: 'For those in later life who own their own home but need cash, borrowing money is not easy.

'Most standard loans and credit deals are not available to pensioners, leaving them with little choice but to release equity from their home.

'Equity release has been criticised for being expensive and inflexible, but with historically low rates and portable loans, they are much more viable for some borrowers.

'Downsizing may be a better option if you are able to move. That way you can free up cash from the sale to enjoy without paying interest.

‘This, though, is not always a practical option and many people simply do not want to leave a home they have lived in for many years.’

b.wilkinson@dailymail.co.uk