

Horizon Interest Reward lifetime mortgage vs retirement interest-only mortgage

For several years, retirement interest-only mortgages (RIOs) have been seen as a long-term financial solution for those in later life with a willingness and ability to make regular monthly payments.

However, following the introduction of Standard Life Home Finance's Horizon Interest Reward lifetime mortgages, could this offer your client a more suitable customer outcome when compared to a RIO?

What is Horizon Interest Reward?

Horizon Interest Reward offers your clients a discounted interest rate when they commit to making set monthly interest payments over a five, 10 or 15-year term.

By securing a discounted rate and servicing either 25%, 50%, 75% or 100% of the interest over their chosen payment term, your client can significantly reduce their total cost of borrowing.

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Case study example

Nigel Whittle is a 60-year-old Registered Manager from Manchester. His current fixed-rate residential mortgage agreement will soon end and with his thoughts turning towards retirement planning, he's now keen to find a longer-term solution.

Nigel has an outstanding mortgage balance of £96,000 secured against his £400,000 home. He has a monthly payment budget of £528 but is also keen to understand how repaying his existing mortgage and reducing his monthly payments will affect his estate.

Total cost of borrowing comparison

	Horizon Interest Reward			Retirement interest-only
	15 year 100%	10 year 75%	5 year 25%	—
Age	60			60
Property value	£400,000			£400,000
Loan amount	£96,000			£96,000
Interest rate	6.22% MER	6.59% MER	6.90% MER	6.60% MER
Interest rate discount	0.75%	0.38%	0.07%	N/A
Monthly payment	£498	£395	£138	£528
Payment term	15 years	10 years	5 years	19 years
Total cost of payments	£89,568	£47,448	£8,280	£120,384
TCOB after 19 years¹	£212,608	£261,305	£337,272	£216,384
Remaining property equity²	£360,204	£269,387	£154,252	£387,244

1. Average male life expectancy – 79 years old (ONS).

2. Including 1% annual HPI. Rates based on Horizon 530, accurate as of 12/07/2024

After 19 years, there's over £3,700 difference in total cost of borrowing between a RIO and a Horizon Interest Reward lifetime mortgage.

However, Mr Whittle's monthly outgoing is £30/month less with Horizon Interest Reward and he must only commit to making payments for 15 years, rather than for life on a RIO.

That means, for the final four years, Nigel will amass almost £24,000 in disposable income following the end of his payment term to help live a better later life and still be able to pass on over £360,000 of property equity.

In comparison, Nigel will have over £387,000 remaining in property equity with a RIO as a result of continuing his monthly payments for the lifetime of his loan, costing him over £25,000 worth of payments in the final 4 years of his loan.

Even when making payments for just five years, Mr Whittle can still bequeath a sizeable estate of more than £154,252.

Continued overleaf

Delivering the best customer outcome

When deciding which payment term and percentage of interest served best suits your client, it is important to discuss their current and future level of affordability and consider if this will support their interest payments both now and throughout the duration of their chosen payment term.

Whilst the longest payment term as seen above can help significantly reduce the total cost of borrowing, it's important to choose a payment term that your client is comfortable committing to and is confident they can complete to avoid losing the discounted rate. Ending a longer payment term early could result in a higher cost of borrowing overall when compared with the shorter payment terms available.

Features and benefits comparison

	Horizon Interest Reward	Retirement interest-only
Home is at risk of repossession	✗	✓
Can choose the percentage of interest to pay ³	✓	✗
Can repay 100% of the interest	✓	✓
Interest rate discount for making payments	✓	✗
Have to make payments for life	✗	✓
Ability to make overpayments ⁴	✓	✓
Affordability/credit score based	✗	✓

3. Interest-served options being 25%, 50%, 75% or 100%.

4. Can repay up to 10% of the initial loan amount each year without facing ERCs until the ERC period ends.

Unlike with a RIO, Mr Whittle's home is never at risk of repossession through a Horizon Interest Reward lifetime mortgage; meaning if circumstances change, he has comfort in the knowledge his home will always be his and he can stay in it for as long as he wishes, even if he fails to meet his interest payments in the future.

In addition, a Horizon Interest Reward lifetime mortgage includes all of the Equity Release Council's guarantees, including fixed interest rates* and the no negative equity guarantee, and as it isn't affordability or credit score based, there's no credit check or impact to his credit score on application.

*** In the event that your client can't keep up with making payments, the rate will simply revert back to the fixed non-discounted rate that would have applied at completion.**

Other features of a Horizon Interest Reward lifetime mortgage

- ✓ Downsizing protection from day one
- ✓ 8-year fixed early repayment charges (ERCs)
- ✓ Unrestricted ERC exemption period
- ✓ A discounted interest rate that is applied for life when clients complete their chosen payment term of five, 10 or 15-years

Offer your clients more choice by adding Horizon Interest Reward to your advice offering

About Standard Life Home Finance

Standard Life Home Finance offers later life lending solutions designed to help your clients enjoy a life full of possibilities. Their lending approach is clear, competitive, and client-focused, making them a lender you can trust to put you and your clients first.

To find out more about Standard Life Home Finance and our Horizon lifetime mortgages, please get in touch:

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