How making repayments can help your clients manage their total cost of borrowing

In today's equity release market, the option for your clients to make ad-hoc or regular repayments is one which may help them save thousands over the lifetime of their borrowing.

All lifetime mortgages that meet Equity Release Council standards come with the option to make penalty-free repayments on a monthly or ad-hoc basis.

These repayments, unlike other forms of later life borrowing, aren't subject to affordability checks. They're also flexible; with the customer having complete control over when they make their repayments and by how much, subject to their plan's terms and conditions.

With some plans, by making repayments, your client can also benefit from a reduction in interest rate - helping significantly reduce their total cost of borrowing. And depending on their plan's terms and conditions, they may even be able to repay their balance in full, without an early repayment charge, in as little as five years.

Of course, many customers look to equity release to help remove the burden of increasing monthly mortgage costs, or the repayments required on unsecured debt, such as credit cards.

However, even repaying £100 a month towards an equity release plan can go a long way to improving a customer's outcome in the medium to long term, and a detailed discussion on the benefits of this approach with clients is essential.

Why is it important for your client to consider making repayments?

One of equity release's unique selling points is the ability for your clients to release tax-free cash from their homes without having to make regular repayments.

But in today's rate environment, it's arguably more important than ever for clients to fully understand the impact compound interest will have on their agreement, and what options they have to help mitigate it.

Rule of 72
According to Defaqto, the average equity release interest rate is currently 6.76 per cent. That's more than double what it was 12 months ago, according to Key's 2022 figures[1].

In financial terms for your clients, this rise in interest rates means it now takes a little over 10.5 years for their equity release debt to double when they choose not to make repayments. If they'd taken out their plan a year ago, it would've taken almost 21.5 years for that to be the case.

So while equity release is a great way to help clients significantly reduce their monthly outgoings, in today's market, it's now more important than everfor them to understand the benefits of making repayments where they can, rather than allowing the compound interest to grow untouched; something which their equity release adviser will explain during the advice consultation.

How much could your clients save by making repayments?

If a client is looking to equity release as a way to cut their monthly expenditure, it can sometimes be difficult to approach the subject of making repayments.

However, even a small contribution can go a long way. And depending on their current circumstances, they still may be able to significantly reduce their outgoings while helping manage their total cost of borrowing.

How Paula Jackson could save more than £54,000 on her lifetime mortgage

Paula Jackson is a 66-year-old, soon-to-retire secondary school teacher from Leeds. Her property is currently valued at £295,000 - the UK average[2] - and she wishes to release £94,000 to clear her shortly-expiring interest-only mortgage.

Paula is considering equity release but is keen to find out more about how making repayments to her lifetime mortgage could help reduce her total cost of borrowing.

Currently, she faces her mortgage provider's SVR of 6.64% and is paying £520 a month. Paula wants to reduce that outgoing but is still willing to contribute regularly to ensure her two children receive a sizeable inheritance.

Her adviser uses more2life's repayment calculator to find the best solution for Ms Jackson's circumstances; using more2life's Flexi lifetime mortgage as the basis of their calculations.

Release Amount		£94,000						
Property value today	Property value after 15 years with 1% annual HPI	**Monthly repayment amount**	Total cost of repayments	Total cost of borrowing	Remaining equity	Difference in remaining equity after repayments	Monthly saving with repayments	**Total compound interest saving by making repayments**
£295,000	£342,479	**£0**	£0	£249,704	£92,776	£0	£0	**£0**
		£100	£18,000	£218,181	£124,299	£31,523	£75	**£13,523**
		£250	£45,000	£170,893	£171,587	£78,811	£188	**£33,811**
		£400	£72,000	£123,613	£218,867	£126,091	£301	**£54,091**

(Calculations based on more2life's Flexi lifetime mortgage rate of 6.78% MER - correct as of 17/2/23 - with an annual HPI of 1% over 15 years)

Paula learns that without making any repayments, her debt will have increased to £249,704 after 15 years; leaving just under £93,000 to pass on as remaining equity when her lifetime mortgage is settled upon death or entry into long-term care.

However, by repaying £400 a month - 77 per cent of her current interest-only mortgage repayment - Ms Jackson can clear her existing mortgage and still pass on almost £220,000 in property wealth. And by making repayments, she can also save more than £54,000 in interest.

Some clients' budgets may not stretch that far, however. So what if Paula was to make a lower repayment each month - would she still see the benefit?

Can making smaller repayments still help?

By repaying £250 a month - 48 per cent of her current mortgage outgoing - Ms Jackson can make a net saving of over £33,000 compared to if she made no repayments at all. It would also leave her with more than £170,000 of remaining equity to pass on.

And even by repaying £100 a month - just 19 per cent of her current mortgage payment - Paula can make a net saving of over £13,000 versus if she chose not to make repayments - leaving almost £125,000 to pass on as an inheritance.

Release amount £94,000

No repayments	Repay £100 per month	Repay £250 per month	Repay £400 per month
owed after 15 years	owed after 15 years	owed after 15 years	owed after 15 years
£249,704	£218,181	£170,893	£123,613
Net saving of **£0**	Net saving of **£13,523**	Net saving of **£33,811**	Net saving of **£54,091**

Repayment calculator

By using our repayment calculator, you can clearly show your clients the impact of making repayments and how this can benefit them in the long run.

Within it, you also have the option to set specific, even multiple, repayment periods and repayment amounts - ensuring their results are personalised to their circumstances - plus the ability to programme in future drawdowns to give a highly accurate picture of how they can help reduce their overall debt accrual over time.

Ensure your clients are doing all they can to help themselves in today's market. Try our repayment calculator today **here**.

The importance of highlighting repayments

As Paula's figures show, making repayments, no matter how much, can help a client save thousands over the lifetime of their borrowing.

That's why it's imperative, particularly in today's economic climate, your clients are aware they have the option to make either regular or ad-hoc repayments to significantly reduce their total cost of borrowing.

And when working with Key Partnerships, you can rest assured that as part of your client's advice process, they'll be made aware of the repayment options available to them as well as the benefits they can provide.

[1] Key's Market Monitor FY 2022
[2] ONS

Start referring today

It only takes a few minutes to register and make an equity release referral, just contact us:

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keypartnerships.co.uk

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