

Market comparison

Flexi Payment Term Lifetime Mortgage



A long-term solution to the interest-only trap

The average five-year fixed residential mortgage rate has more than doubled since 2019.¹ Customers coming to the end of their initial fixed rate term face a difficult choice: fix again, or take a gamble on a variable rate with the hope of the Bank of England significantly reducing the base rate in the short to medium term.

However, with the suggestion that most mainstream mortgage lenders have already priced in, and passed on, the drop in base rates expected over the next two to five years, it's a gamble that may not pay off.

This could leave customers, particularly those who are starting to think about retirement planning, in a challenging position. Julie Walton is a prime example.



Meet Julie Walton

Case study example

Julie Walton is a 55-year-old sales manager from County Durham. Julie is coming to the end of the initial fixed term on her interest-only mortgage and, with plans to retire at 70, wants to find a solution that allows her to be free from monthly mortgage payments in the not-too-distant future.

Ms Walton has an outstanding mortgage balance of £119,750 on her £500,000 home. Her circumstances dictate that she has the borrowing power to meet the affordability of a full or part-interest-served product. But given her financial objectives, what's the best customer outcome?

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	Term Interest-only	Retirement Interest-only	Flexi Payment Term Lifetime Mortgage	Flexi Payment Term Lifetime Mortgage	Standard Lifetime Mortgage
MER	N/A	N/A	5.97% MER	5.97% MER	8.82% MER
APR	4.28% (5 year fixed)	5.74% (5 year fixed)	6.14% AER (fixed for life)	6.14% AER (fixed for life)	9.19% AER (fixed for life)
Monthly mortgage payment	£431	£572	£431	£284	None required
Contractual term	15 years	29 years	6 years 5 months	10 years 6 months	None
Age at the end of the contractual payment term	70	87	61	66 for the oldest borrower	None
Reversionary rate	8.24%	8.44%	Fixed for life	Fixed for life	Fixed for life
Cost to the estate at 15 years	£245,575	£255,860	£245,121	£264,141	£447,451

Julie is eligible for a Flexi Payment Term Lifetime Mortgage. A Flexi Payment Term Lifetime Mortgage is a lifetime mortgage that requires a part-interest payment for a fixed payment term. Once the contractual payment term is complete, regular monthly payments become optional.

A Flexi Payment Term Lifetime Mortgage is designed to provide a better customer outcome for:

- Younger borrowers aged 55-62 who would like, or are only able to, service a smaller portion of the interest than would be required by a full-interest-served alternative, such as a RIO or interest-only mortgage
- Those who would like the flexibility to stop making regular monthly payments and secure guarantee of tenure sooner

Flexi Payment Term Lifetime Mortgage: A better customer outcome

Unlike the alternative interest-only options, a Flexi Payment Term Lifetime Mortgage provides Ms Walton with a long-term solution that meets her needs. When the contractual payment term ends, Julie has the option to stop making payments while securing guarantee of tenure.

This means Ms Walton's interest-only timebomb is not put on hold for another five years in the hope of better market conditions. Instead, she's provided with an affordable outcome that meets her financial objectives and helps protect her estate.

Flexi Payment Term Lifetime Mortgage overview

- ✓ Available from age 55-62 (+364 days) at application with £125k+ home
- ✓ Plan holder(s) must make mandatory payments until the oldest applicant turns 66
- ✓ Overpayments are available from day one (£50 minimum, maximum 10% per year), which can reduce the mandatory payment term
- ✓ No negative equity guarantee and guarantee of tenure apply from outset, subject to terms and conditions, including making all mandatory payments
- ✓ ERC exemption on repayment within 3 years of death/LTC of partner

Availability of our Flexi Payment Term Lifetime Mortgage depends on a customer's ability to meet credit and affordability requirements. The customer's home may be repossessed if they fail to keep up with mandatory payments during the payment term.

For more information



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