An Introduction to

Equity Release

Getting to grips with the basics

- Two ways to release equity
- This mortgage is for life (usually)
- Home reversion and lifetime mortgages
- Taking the time to consider the best options for you
- Discussing your plans with your family

Shaking the magic money tree?

Many people approach retirement owning the family home and would like to access some of the value stored in its bricks and mortar. Downsizing is one option but, if you still need the space or a move seems too daunting, equity release may provide a last-resort solution. If you are 55 or older, it could turn some of your home's value into cash, without forcing you to relocate; but it's no magic money tree, as plans may be expensive and often inflexible.

Two ways to release equity

There are two main types of equity release: lifetime mortgages and home reversion plans. With a lifetime mortgage, you borrow a percentage of your home's value but retain ownership. Under a home reversion plan, you sell an agreed proportion of your home to the plan provider. Both types are subject to Financial Conduct Authority (FCA) regulation and each has its pros and cons.

Equity release activity has been growing and older homeowners unlocked £3.06bn of property wealth during 2017[1]. In parallel with FCA regulation, industry standards are set by the Equity Release Council (ERC). This trade body was previously called Safe Home Income Plans, whose quality control work now falls to the ERC's Standards Board. Equity release products must be soundly based and recommended only when suited to a client's needs by a person qualified to advise on them.

This mortgage is for life (usually)

Like an ordinary mortgage, a lifetime mortgage is secured against your home; you still own that and you or your beneficiaries still gain from any increases in value, offset by interest accruals. The plan releases a percentage of your property's value as a lump sum. This may be a one-off payment, but drawdown schemes let you take an initial sum, followed by further amounts within a pre-set limit when needed.

Interest is charged on the amounts you have received and the interest is compounded, so you don't make any monthly payments unless you select an interest-only lifetime mortgage. Most lifetime mortgages carry a fixed interest rate although variable rate products are available, sometimes with a capped

rate. Rolled-up interest is eventually payable with the capital repayment when you die or move into long-term care and the property is sold.

The sum you can borrow largely depends on your age and your property's value. As a rough guide, if you're 65 with a £250,000 home you could typically borrow up to £80,000. If you survive for many years, rolled-up interest could mean your debt would overtake your property's value, but a 'no negative equity' guarantee is usually available and some schemes offer 'inheritance protection' to ensure the property's value can't be wiped out entirely. For a lifetime mortgage, you need to be 55 or older. The property must be your main residence, of standard construction, and worth at least £70,000. Plans may be transferable to another suitable property if the lender agrees.

Lifetime mortgage drawbacks include:

- Usually the interest is added to what you owe and accumulates over the years, with interest accruing on the interest
- If you decide to repay the plan early, there may be an early repayment charge
- When you die, the loan and any accrued interest will be paid off from the value of your home, reducing what your heirs receive (though it may also reduce any inheritance tax due on your estate).

Home reversion means selling a stake in your home

Home reversion involves selling all or a proportion of your home in return for cash, on the basis that you can continue living

there rent-free, generally for the rest of your life. Home reversion plans aren't loans, so there's no interest accruing. However, if property prices rise, you only benefit according to the proportion you still own.

For a home reversion plan, you normally need to be aged at least 65. Your property must be your main residence, of standard construction and worth some £80,000 or more. The portion of equity you sell to the plan provider depends on individual circumstances and may be all of it. However, you will only receive a percentage of the market value of that portion, maybe only about 25% if you're at the younger end of the age range.

Home reversion drawbacks include:

- You'll get much less than the market value of the stake in your property that you part with, because of your right to continue living there whilst payday for the plan provider may be many years away
- If you die soon after starting a plan, you could have sold off (part of) your home at a fraction of market value, though some schemes make a rebate if you die within a certain time
- The government Money Advice Service says: *"Home reversion plans are high-risk products. They could have major implications for tax, benefits, inheritance and your long-term financial planning."*

Equity release standards

Equity release advisers must be qualified by examination and Equity Release Council standards require plans to have the following features unless clearly stated otherwise:

- A 'no negative equity' guarantee, so the debt can't exceed a property's value
- Optional repayment allowed at any time (early repayment charges may apply)
- Freedom to move home and transfer the plan

Professional advice is essential; equity release isn't the right solution for everyone.

Releasing cash from your home reduces the value of your estate and the amount of inheritance you leave, so you should involve your children and dependants from the outset.

Think carefully before securing other debts against your home. Equity released from your home will be secured against it.

To understand the features and risks, ask for a personalised illustration.

[1]Equity Release Council, Jan 2018

* We're here to help

We're only a phone call away, so if you have any questions or would like to discuss the best options for your individual circumstances, please do get in touch..

Top Tips

Consider all your options

Drawing up a budget will help you work out how much cash you will need, and when you'll need it. That way, your equity release plan can be tailored to your needs.

If you are considering using equity release to pay off a mortgage, there may be other solutions that could work better for you, so it's important to get good advice. If you're looking to use the cash for home improvements, it's worth checking to see if you'd qualify for a local authority grant.

Discuss your plans with your family

Equity release is a potentially useful tool for raising money and can help bolster retirement income, pay for home improvements or provide cash to pass on to other family members while you're still alive. As it will impact the amount of inheritance you leave to your family, it's a good idea to talk it over with them before going ahead.

Drawdown lifetime mortgages provide flexibility

The drawdown type of lifetime mortgage has risen in popularity, as it gives homeowners the freedom to take a lump sum secured against their property whilst leaving some in reserve for access later, as and when needed. This means they can opt to leave more of their equity intact to pass on to family as an inheritance. Interest accrues only on the money actually drawn down and on earlier interest.

A 'no negative equity' guarantee is a safeguard

The guarantee is that the loan plus the interest can never exceed the value of the property. So if you move into care or die, your dependants or beneficiaries won't be faced with extra debt.

A joint plan can protect your interests

A joint plan gives equal rights to either party to continue to live in a shared home if the other dies or needs to move into long-term care.

The plan with the lowest interest rate may not be the best

Plans come with a variety of features and benefits, and it's important that your plan meets your needs. For instance, some allow borrowers to make monthly interest payments to avoid the interest rolling up.

Understand the costs

These vary from one provider to another and may include a set-up or administration fee, solicitors' fees and, depending on the option you choose, surveyors' fees for carrying out a valuation of your home.

Your benefits may be affected

If you receive means-tested benefits, your entitlement to them could be affected if your circumstances change and your income or savings increase. Seek advice on how to release equity without affecting your benefits.