YOUR GUIDE TO EQUITY RELEASE

Contents Introduction

Introduction

Equity Release is a way of releasing the wealth tied up in your property, without having to sell it and move to another home. You could choose to either borrow against the value of your home or sell all or part of it in exchange for a lump sum or regular monthly income. It may also be possible to take further monies from your property at a later date, if required.

Equity Release is designed to help customers over the age of 55 who either own their property outright, or have small mortgages left to pay.

Equity release will reduce the value of your estate and can affect your eligibility for means tested benefits.

Types of equity release?

Life Time

There are two main types of Equity Release, lifetime mortgages and home reversion plans:

Home Reversion Plan

Lifetime Mortgages

A lifetime mortgage is a type of mortgage where you choose to release your equity through a single lump sum or in smaller amounts over time, to the maximum limit agreed with the provider.

With a lifetime mortgage, you can elect to retain some of the value of the property as an inheritance for family members.

By choosing a lifetime mortgage, you retain full ownership of your home and the interest on the loan can be fixed or variable.

Lifetime mortgages can offer the ability to make monthly interest payments in part or full, therefore maintaining the debt to the minimum amount before interest.
Alternatively, you have the option to allow the interest to 'roll up' over the term of the mortgage, with the balance being repaid by your estate when you die or move into long-term care on a permanent basis. For a couple it would be based on the last to survive.

The amount released depends on your age and the value of the property. Some providers are able to offer larger sums to those with certain past or present medical conditions, or lifestyle factors such as smoking.

Home Reversion Plans – By Referral Only

A home reversion plan allows you to access all, or part, of the value of your property while retaining the right to remain in it, rent free. With home reversion, the provider will purchase all, or a percentage, of your house.

You will understand precisely what portion of the property you have parted with and what has been ring-fenced for later use. The percentage you retain in your property always remains the same, regardless of the change in property value, unless you decide to take further cash releases.

At the end of the plan your property is sold and the sale proceeds according to the remaining proportions of ownership.

Like lifetime mortgages, you may be able to access more funds, depending on your age and medical conditions. You will be provided with a tax-free cash lump sum or regular payments, and a lifetime lease guaranteeing you the right to stay in your property rent free for the rest of your life. There would be no day to day interference and no restrictions in treating the ho use exactly as before, as a private home to live in freely.

Our advisers are not able to offer Home Reversion advice, however, we will gladly refer you to one of our industry partners

What you need to know

From the information above, Equity Release may seem like a good option when you want some additional money, but don't want to move home. However, there are a number of important considerations:

Cost

Equity Release can be more expensive when compared to an ordinary mortgage. When taking out a lifetime mortgage you will normally be charged a higher rate of interest than you would on an ordinary mortgage, and the debt can grow quickly if the interest is rolled up. It is worth bearing in mind that house price growth might also be evident.

The plan provider charges a higher amount of interest because they need to factor in safeguards. For example, a no negative equity guarantee (so you will never owe more than the value of your home, regardless of interest payments due, and any changes in property value) and a fixed interest rate for the life of the plan. These safeguards mean the interest rate is different to an ordinary mortgage.

Term

For life time mortgages, there is no fixed 'term' or date by which you are expected to repay your loan. The rate of interest of a lifetime mortgage will not change during the life of your contract, unless you take additional borrowing and then it will be only be applicable to that cycle of extra borrowing.

Value of home

Home reversion plans will usually not give you anything near to the true value of your home when compared to the sale value on the open market.

Future needs

If you release equity from you home, you may not be able to rely on your property for money you need later in your retirement. For example, long-term care.

Flexibility

If you decide to move home and take your lifetime mortgage with you, if you decide to downsize later on, you may not have enough equity in your home to do so. In this instance you may have to repay some of the mortgage.

In addition, the schemes can be complicated to unravel if you change your mind

Impact on state benefits (means tested)

The money you receive from equity release may affect your entitlement to means tested state benefits.

Tax

You will not usually have to pay income or capital gains tax on the amount you receive when it is released from your main home. However, tax may be payable on any further investment of the proceeds.

Fees/ charges

You may have to pay arrangement fees of between £1,500 to £3,000, which include solicitor and advice charges. There could also be additional charges. If you wish to repay the mortgage early, there could be early repayment charges to pay, although these would not apply on death or long-term care planning.

Estate planning

When you take an interest roll-up plan, there will be less for you to pass onto your family as an in heritance.

" You will not usually have to pay income or capital gains tax on the amount you receive when it is released from your main home."

Getting advice

Before beginning to advise you and make any potential recommendations, your equity release qualified financial adviser will work with you to understand your specific circumstances and goals.

Your adviser will consider the following when determining the appropriate solution for you:

- The options of downsizing to release the money you need, or whether you want to release money from your property while staying in your current home
- Whether you wish to service the interest each month (like a mortgage for over 55's) or receive the money required now, but not service it so the interest rolls up (Equity Release)
- The proposed interest rate, fees and charges
- Whether fixed early repayment charges are important to you
- The importance of estate planning and the select ion of a solution which offers an equity guarantee, or a means of paying the ongoing interest
- Solutions with a high loan to value, if you want to take the money now and again in the future
- Drawdown solutions that allow you to take an initial lump sum but with a facility to take more late

Your home may be repossessed if you do not keep up repayments on a mortgage or any other debt secured on it.

"The options of downsizing to release the money you need, or whether you want to release money from your property while staying in your current home"

Speak to a adviser using the details below:

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