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securing your future

A guide to equity release

Content

A lifetime mortgage is a loan secured against your home.

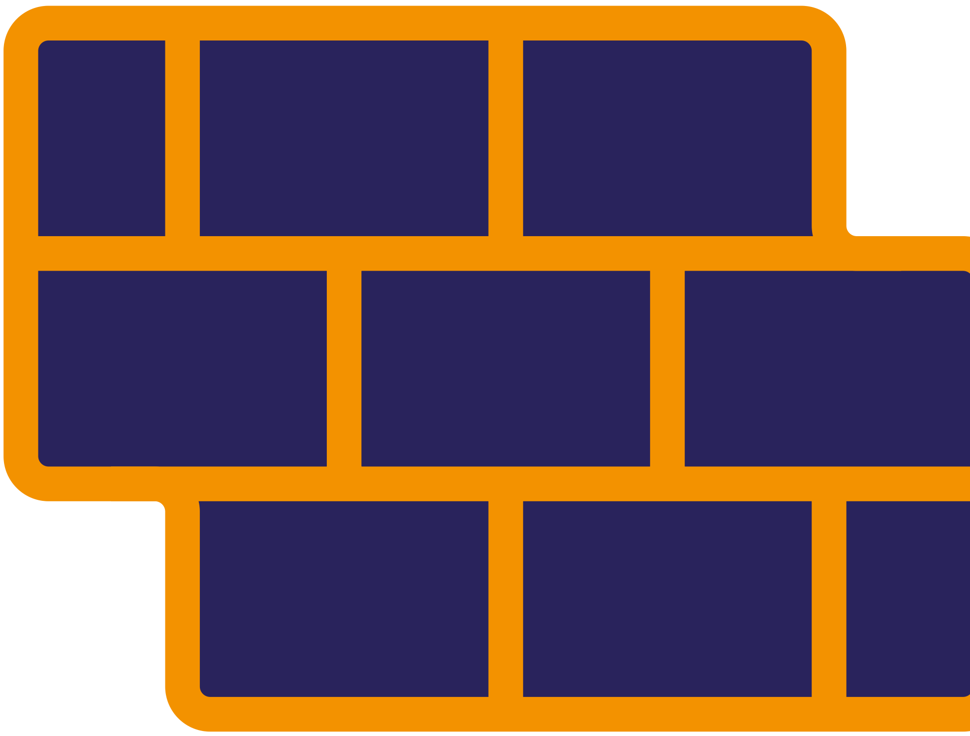
Equity release products are complex products. To understand the features and risks, ask for a personalised illustration.

Equity release will reduce the value of your estate and may affect your entitlement to means tested benefits.

Introduction

Have you heard of equity release but are uncertain what it entails? If you need to access a lump sum, making use of some of the value tied up in your home could be a wise option. However, there are important factors to consider when deciding whether equity release is suitable for you.

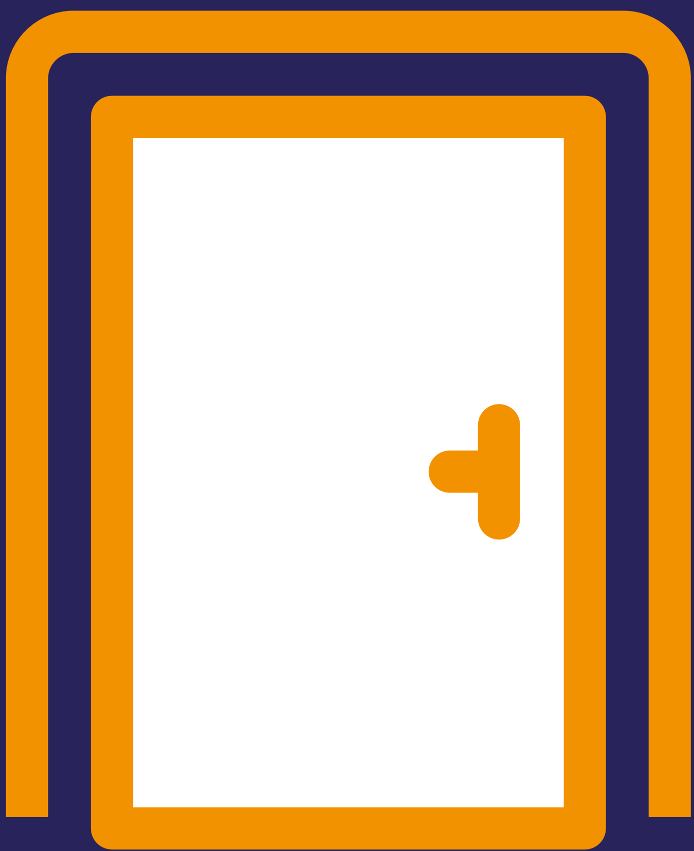
As we receive numerous enquiries on the subject, we thought it would be useful to compile a guide of all the main issues to help you work out if it may be the best course of action for you.



What is equity release?

Equity release is a method which may allow homeowners over the age of 55, in the case of a lifetime mortgage or retirement interest only mortgage whose main residence has a value of more than £70,000 to release equity from their home, whilst enabling them to continue to live there. A home reversion plan may be available for homeowners who are 60 - 65 years old. The loan is repaid when you die or are taken into long-term care and the house is sold.

If you need to fund a major purchase, capitalising on the value of your home can be a sensible move. We like to describe it as a retirement plan with four walls, a roof and front door.



There are two types of equity release:

A lifetime mortgage

A home reversion plan

Either scheme enables you to turn some of the value of your home into tax-free cash.

How does each scheme work?

A lifetime mortgage is when you borrow money against the value of your house and then repay it when it is sold.

The property remains in your name as it would with a conventional mortgage. The difference is that you do not usually have to make any monthly repayments. The amount you owe just continues to grow as the interest accumulates and is added to the loan. The amount borrowed plus the interest is usually paid back in full from the proceeds of the sale. If you prefer, you can either opt to pay some or all of the interest monthly. If you opt to pay all of the interest monthly then the amount you have borrowed will remain the same and most options allow you to stop making payments at which point the payments are rolled up onto the mortgage increasing the debt over time. Lenders offering a no negative equity guarantee should be considered.

Alternatively, a Retirement Interest Only mortgage is a type of Mortgage where you must maintain the interest only payments until the mortgage is repaid in full without the option for rolled up payments. *

*** Your home may be repossessed if you do not keep up repayments on your mortgage.**

A home reversion plan differs from a lifetime mortgage in that it is not a loan. Under this type of scheme, a home reversion provider buys all or part of your home at less than its market value in return for a tax-free lump sum.

You continue to live in your property, with no interest payments. Ownership automatically transfers to the provider when you die or move permanently into long-term care. Only when your home is eventually sold does the home reversion company get their share of the proceeds of the sale, which is why they protect themselves by offering less than the market value at the point of 'purchase'. It is important to be aware that with this kind of plan you will still be responsible for the maintenance on your home.

With a home reversion plan, although you don't pay rent, you no longer own 100% of your home. You should be mindful that your estate will miss out on some share of any house price growth and if you pass away soon after taking out the plan, you have effectively sold your property cheaply. However some plans have provisions in place so that you are protected.

Entire FS Ltd do not arrange home reversion schemes.

Are many people using equity release?

Equity release was originally launched as a niche product in the 1970s but it was completely non-regulated. Despite this, it steadily grew in popularity in the 1990s. In 1991, it became self-regulated through Safe Home Income Plans (SHIP) which was relaunched as the Equity Release Council in recent years. The trade body introduced safeguards such as a 'no negative equity guarantee'. All Equity Release Council members offer this as a feature of their products.

In recent years, equity release has enjoyed rapid expansion, driven by demand. For example, taking the 2018 figures of the first half of the year, retired homeowners released £1.7 billion of property wealth which equated to £9.5 million being released every day. This represented 29% more people taking out equity release plans in 2018 than last year. In fact, more money was released in the first six months of 2018 than the whole of 2015.

Customers received an average of nearly £78,000 per plan. In the North West, the number of plans sold was 1,957 and the total value released was £108 million. While in London, homeowners released an average of £133,000 of property wealth each, followed by the South East on nearly £90,000.

The figures indicate that, for many people, equity release has provided a useful means of releasing some of the value locked up in their homes.

What are the benefits?

So now that you know a bit more about it, why might you consider equity release as an option?

1. First of all, it allows you to enjoy your money now. If you‘ve got plans for a particular project but are being held back by a lack of money, it can be frustrating to know it’s all tied up in bricks and mortar. Equity release provides a way round this.

2. Secondly, you have the ability to remain in your own home. There’s no need to think about downsizing or moving just to realise the value of your property.

3. Thirdly, the equity you release is tax-free. You won’t incur capital gains tax or income tax on the money you release from your home whether it is as a lump sum, cash or a series of ‘drawdown’ releases.

4. Fourthly, using equity release means you can still leave an inheritance to your loved ones. There are certain types of plan that will accommodate your wishes.

5. And finally, equity release offers flexibility. You can explore a range of options from making no interest payments, to making full or partial repayments.

What can it be used for?

People use equity release for a variety of reasons. Here are some of the more popular ones:

- home or garden improvements
- long-haul holidays or major purchases such as a new car
- clearing outstanding mortgages*
- repaying unsecured debts, this would include loans and credit cards
- helping children or grandchildren out financially
- long-term care but only if you're looking to stay in your home.

Of course, it may not be for you directly. Equity release can also be a good way of helping elderly parents to free up some money.

* Your home may be repossessed if you do not keep up repayments on your mortgage.

Things to consider

If you are thinking of exploring equity release in more detail, there are a few key issues to be aware of:

- it will reduce the amount of inheritance you leave behind when you die
- equity release may affect your entitlement to certain state benefits
- equity release rates are higher than standard mortgage rates as they factor in how long you're likely to live before the lender gets their money back
- the compound interest charges will have an impact on your equity
- typically the maximum you can borrow is 55 per cent of the value of your home
- costs such as set-up fees, valuation and legal fees will depend on the provider

In addition to equity release, make sure you are claiming all the state benefits you are entitled to.

What protection is available?

The equity release market is unrecognisable from twenty years ago. The industry is now overseen by the Equity Release Council and is fully regulated by the Financial Conduct Authority (FCA).

It's important to consult a qualified financial adviser who should clearly explain the effect that taking equity release will have on your estate, as well as outlining any alternatives.

Make sure that a 'no negative equity' guarantee is being offered so that your plan will never leave your estate with a debt that is more than your home is worth when it is sold upon your death or when you move into long term care.

All legal work will be carried out by a solicitor who is experienced in this area.

Case study

David and Sylvia were a married couple, both in their 70s and living in Bowdon. They'd decided to explore the Equity Release route as they wanted to do some home improvements on their own property and also help their daughter with a house deposit.

They lived in a four bedroomed detached house in pleasant surroundings where they were very happy but there were certain things they wanted to change as they grew older. They'd thought about downsizing but really didn't want the hassle of moving. Instead, they were planning on installing a deluxe wet room downstairs and adding a conservatory to the back of their house so they could enjoy looking out at the garden, whatever the weather!

They'd purchased the property over twenty years ago for £390,000 and it had increased in value to its current value of £895,000 - not a bad increase over the years.

The conservatory was going to cost them approximately £17,000, the wetroom £10,000 and they wanted to give their daughter £20,000 to help towards her deposit, so in total they needed £47,000.

David and Sylvia approached Entire FS to see what was possible as they had heard about our experience with equity release. After examining the research we produced for them, they decided to go ahead and release the £47,000 they needed for their projects using a lifetime lump sum mortgage. They found that since they could comfortably afford the interest payments on their previous mortgage they would prefer to pay the interest on their equity release lifetime mortgage rather than roll it up.

The couple were delighted with the solution as it enabled them to go ahead with their projects while at the same time being able to properly manage the value of their property and ease any financial pressures.

> **"The advisers at Entire FS clearly explained all the implications and made the whole process easy to understand. We felt we could trust them completely and are delighted at the way it opened up new possibilities."**

David and Sylvia

Next steps

Equity release is not for everyone.

If it is something you are seriously considering, talk to an expert and ask them to draw up a personalised illustration and plan, specific to your circumstances.

Take time to consider all the implications. With your adviser, discuss your goals and ambitions and what has led to the current situation. They will review your income and assets and explore why you want to proceed with equity release. They may also suggest that it is also appropriate to have a meeting with your children as equity release does affect the whole family.

At Entire FS, we are leading specialists in lifetime mortgages, with many years of experience. If you would like to know more about equity release, do get in touch to make a no-obligation meeting. We would be delighted to go through the options with you.

A fee will be payable if you decide to proceed with an Equity Release application, details of which will be confirmed to you during your initial conversation with us.

Notes

www.entirefs.co.uk