E@sy Guide to Equity Release

Property values have soared in recent times. It is possible to release some of this profit without selling your home.

One way of doing this is by using an equity release plan, which could give you the means of providing you with the cash to boost your current standard of living.

FINANCIAL PLANNERS CII CHARTERED

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POLICE Federation MORTGAGES

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The Basics

What is Equity Release?

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> Equity Release is a way of getting cash from the value of your home. These schemes can be helpful in certain circumstances but are not suitable for everyone. For example, they can be expensive and inflexible if your circumstances change in the future and may affect your current or future entitlement to State benefits.
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How does it work?

One way is to borrow a lump sum secured against your home. Another way is to sell part - or all of your home to give you a regular income or lump sum, or both. You can continue to live there.

You will most likely need to have paid off your mortgage, or have very small outstanding mortgage to qualify for an equity release scheme.

Types of Equity Release

Lifetime Mortgages

A loan secured on the borrowers home (a mortgage) is made to generate an income. Interest payments are added to the capital throughout the term of the loan, which is then repaid by selling the property when the borrower(s) die or move out (perhaps into a care home). The borrower retains legal title to the home whilst living in it, and also retains responsibilities and costs of ownership.

Home Reversions

The borrowers sell all or part of their home to a third party, normally a reversion company or individual. This means all or part of their home belongs to someone else. In return, the borrowers receive a regular income or cash lump sum (or both) and they continue to live in their home for as long as they wish.

Points to Consider

There are several points to consider carefully before taking out an equity release plan. These include:

- The cost of compounded interest over a long period.
- The impact on any inheritance you may wish to leave.
- The effect on any welfare or tax benefits you currently receive or may be entitled to receive in future.
- There may be alternative ways of releasing cash e.g. downsizing or obtaining grants for essential repairs or improvements.
- Participation in an equity release plan should be viewed as long-term.

Getting Help

Firms that give financial advice have to be regulated by the FCA or be the agent of a regulated firm. Regulated firms and their agents are placed on the FCA register and have to meet certain standards. Always make sure that the firm you use is on the FCA register and is allowed to give financial advice before handing over your money. If they aren't registered with the FCA and things go wrong, you won't have access to the complaints and compensation procedures.

An adviser should only recommend a lifetime mortgage that is right and suitable for you based on the information you give them.

Bear in mind that if you don't take advice and the product you choose turns out to be unsuitable, you will have less grounds for complaint.

Frequently Asked Questions

How much can I borrow?

How much companies are able to advance to customers is based on a variety of criteria including the value of your home, your age and gender when taking out the plan. The older you are the more you will be able to borrow as your life expectancy is shorter. As a guide between 20-40% of the property value would usually be available at the outset.

I'm in poor health, can I borrow more?

Because the lump sum is available from an equity release scheme is based upon a number of factors, one of which is life expectancy, you may be able to apply for enhanced terms. For further information please speak with your financial adviser.

Should I release the maximum cash sum I am allowed?

You should only take the maximum amount if you really need it. The more equity you release from your home the higher the cost to you. If, having taken an initial lump sum you think you may need more money in the future consider a flexible mortgage option, which allows you to access to a cash reserve from which you could withdraw more monies as and when you require.

Who will own my property once the equity plan is completed?

Lifetime Mortgages - the ownership of the property always remains with you.

Home Reversion Plan - part of the ownership of your home will belong to the lender.

How does the rolling up of interest work?

On lifetime mortgages no repayments are made through the period of the loan. Instead, interest is added to the amount owed each month and repaid when the loan is redeemed. Interest is charged at a fixed rate, applicable at the time of application, calculated daily and added to the loan each month.

Does the interest roll up the same way for the flexible mortgage option?

Yes, however by choosing a flexible mortgage option you may pay less interest over the life of the plan. This is because you may choose to take a lower initial lump sum and make future withdrawals only when required. Interest is only charged on the amounts you have borrowed.

Frequently Asked Questions (cont)

Will I be responsible for the upkeep of the property?

All equity release schemes require you to ensure that:

- Your property is maintained and kept in good repair.
- All property related bills are paid by you.

What happens if I want to move house?

If you decide to move, you should be able to take your equity release plan to a new property, provided it meets the lending criteria. If the new property is of a lower value, the terms of your equity release plan may need to be renewed. Further details will be provided in an illustration.

Please note that you will of course have to meet the costs of moving home.

Will taking out an equity release plan affect my tax position or my entitlement to certain state benefits?

It is important that you discuss these matters carefully with both your financial adviser as depending on your personal circumstances it could affect both.

Can I take more if my property increases in value?

Further advances are available, generally after three years and subject to a survey and the prevailing lending criteria at that time.

Do I need to involve my family when making a decision?

Whilst not a requirement, we do feel it is important to consider discussing your plans with your family as any future inheritance will be affected.

Jargon Buster

Annuity
An annuity converts a large sum into income which is taxed.

APR
Annual percentage rate - the APR includes important factors such as:

- the interest rate you must pay.
- how you repay the loan (length of loan agreement [term], frequency and timing of instalment payments and amounts of each payment).
- certain fees associated with the loan, and
- certain compulsory insurance premiums (e.g. payment protection insurance)

Arrangement fee
A commitment or administration fee usually payable to the lender to reserve the mortgage funds.

Buildings insurance
Insurance to cover the cost of repairing or rebuilding your home if it's damaged or destroyed.

Equity release
A way in which you can benefit from the value of your home without having to move out - by borrowing on it or selling all or part of it for a regular income or lump sum.

Fixed-repayment lifetime mortgage
You take out a loan that pays you a cash lump sum and, instead of paying the interest on the loan, you agree to pay the lender more than you borrowed when you sell your home.

Home income plan
You take out a laon that pays you a cash lump sum and is secured against your home. You buy an annuity to give you a monthly income, usually fixed for life

Home reversion
You sell all or part of your home to a third party in return for regular income and/or cash lump sum and continue to live in your home for as long as you wish.

Jargon Buster

Interest only mortgage
You take out a loan on which you only pay the interest back each month. You do not pay off any of the capital. Instead in a lifetime mortgage, the lender will be repaid by selling your home when you die or go into long term care.

Key facts document
Important information for you, set out in a standard way so you can compare service, product and costs. Make sure you get them and read them

Legal fees
A fee you pay your solicitor for their service.

Lifetime mortgage
You take out a loan, secured on your home, which is repaid by selling your home when you die or go into long term care.

Mortgage
A loan secured on your property

Negative equity
The amount you owe the lender is more than the value of your home.

Roll-up mortgage
You take out a loan as regular income or cash lump sum. The interest on the loan is rolled-up each month or year and added to the loan. This means you end up owing more than the value of your home (i.e. more than you borrowed).

Secured
You do not have to keep up repayments on your loan, the lender can sell your home to get its money back.

Shared appreciation mortgage
Some lifetime loans include this element. The lender gives up the right to get some or all of the interest of the loan. Instead you agree to allow the lender to take a share in any increase in value of your home when it is sold.