Equity release
– a brief guide

One solution for all your financial needs

A common source of frustration for homeowners, particularly those either in or heading for retirement, can be unlocking the equity that's built up in their home during the years they've owned it. The most obvious way of accessing it as 'cash' is to downsize – selling up, buying something less expensive and then banking the profit – but sometimes this may not be desirable, even if it's possible. An alternative is 'equity release', a much advertised and increasingly popular way of releasing the wealth that's accumulated in a property over the years.

Equity release can have unforeseen consequences. As members of the Equity Release Council, a consumer-centric organization that promotes high standards and consumer safeguards, we strongly recommend you call us on 020 3714 9565 for a confidential discussion with a qualified independent financial adviser before making any commitment.

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Introduction

'Equity' is the value of a property after the deduction of any charges against it, usually the mortgage, and can be considered as profit. As with many forms of investment, the profit that's accumulated can't be released until the investment is sold but, whereas you can easily sell part of a shareholding, you can't easily sell part of your home. This can be a major source of frustration for many homeowners, particularly those either in or heading for retirement, as the equity in their home may have increased dramatically during the time they've owned it and be potentially 'life-changing' in value – but turning it into cash can be difficult.

The most obvious way of releasing equity is to 'downsize' which means selling your home and buying something less valuable – but, in later life, this may be neither desirable nor possible. An alternative is 'equity release', a much advertised and increasingly popular way for homeowners to tap into the financial wealth that's accumulated in their home, unlocking its value as either a lump sum or in the form of a regular income stream.

Regulation and codes of conduct

Using an equity release product to finance your retirement is a big decision, and not one to enter into without a thorough understanding of what you're doing. In fact, such is its importance that it's been regulated by the Financial Conduct Authority (FCA) since 2004, and many lenders are members of the Equity Release Council (ERC), an industry body which has a voluntary code of conduct that provides a number of guarantees.

Equity release options

There are two types of equity release scheme: lifetime mortgages and home reversion. Both have specific features and benefits, advantages and disadvantages and pros and cons which need to be carefully considered against your own, individual circumstances to determine which scheme, if either of them, is the best one for you. As with anything to do with loans secured against your home, it is strongly recommended that you seek help from a qualified, independent financial adviser.

- Lifetime mortgage
  A lifetime mortgage is a straightforward loan secured against your home. The loan, along with any accrued interest, is usually* repaid when the property is sold, which may be due to an eventual downsizing move, moving into long-term care or, of course, passing away.
  *The loan and/or interest can also be repaid on a regular monthly basis.

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- Home reversion
  Home reversion means selling all or part of the property you call 'home' to a reversion company in exchange for either a lump sum or regular cash income – however, the key disadvantage of doing so is that you lose sole legal title to the property.

The essential difference between the two is that, with a lifetime mortgage you receive a loan that you have to repay but you retain ownership of your home, whereas with home reversion you sell part, or all, of your home and are no longer the (sole) owner.

Lifetime mortgages

A lifetime mortgage is a loan secured on your property. Preconditions are that you, and your spouse if it's a joint application, have to be over the age of 55, the property has to be your main residence and you must fully own it. Lifetime mortgages are rather like residential mortgages in reverse – instead of borrowing money to buy a property, you're using the property to 'buy' a loan. Just as residential mortgages vary from lender to lender, so do lifetime mortgages so it pays to look for the best, and most appropriate, deal for your circumstances.

Probably the most important aspect of a lifetime mortgage is that you retain ownership of the property. The loan, along with any interest due, can be repaid at any time although this usually happens when the property is sold, perhaps as a result of your downsizing, moving into long-term care or passing away. Although lenders will offer you a loan based on the full value of your property, it's important to try to match the size of the loan with your financial needs; interest rates are higher than traditional mortgages and doing so helps avoid accruing or paying interest unnecessarily.

How you repay the loan varies. The usual method of repayment is for the interest to accrue, to 'roll up', which allows you to repay everything, the capital amount and the interest that's accrued, when you sell the property. The downside of this is that the total sum owed can increase very quickly so, if you can afford to repay the interest on a monthly basis, it's worth doing. Some lifetime mortgages

> "Probably the most important aspect of a lifetime mortgage is that you retain ownership of the property."

allow you to repay the capital, and the interest, on a monthly basis if you can afford to do so.

Lifetime mortgage: key points

- Minimum age
  The minimum age at which you can take out a lifetime mortgage is, usually, 55. However, interest starts to accrue as soon as you take out the mortgage which means, and particularly with life expectancy increasing, that you may end up paying much more interest than you first expected. This will be highlighted in the lender's loan calculation – the possibility that you may have to pay a significant amount of interest may limit the size of the loan they are prepared to offer you.

- Loan sizes
  Different lenders will structure their loans differently: the minimum loan, the loan to property-value ratio and the maximum amount you can borrow will all vary as will the 'detail'. The maximum that most lenders are prepared to lend is determined by a risk: when will the loan be repaid and, when that time comes, will the value of the property still be sufficient to repay it in full? Most lenders will (usually) offer a loan of up to 60% of the value of the property but this is dependent on your age, your health and the value of the property. Typically, the older you are, the more a provider may be prepared to lend you, especially if you have one of a number of specific medical conditions – the reason being, quite simply, is that they stand to get their money back sooner rather than later.

- Interest rates*
  Interest rates must be either fixed or, if they are variable, they must be 'capped', ie: have an upper limit, and the cap must be fixed for the life of the loan. If you arrange an additional loan, the new loan may attract a different, but still fixed, rate of interest.

- No fixed term
  Lifetime mortgages do not have a fixed term that specifies the date by which you're expected to repay the loan; the presumption being that it'll be repaid when the property is sold, either because you've downsized, moved into long-term care or passed away.

- Right to remain*
  You retain ownership of the property until it's sold which does, of course, give you the right to remain there, either for life or until you need to move into long-term care.

The only caveats are that the property remains your main residence and you abide by the terms and conditions of your contract.

- Negative equity guarantee*
  If, when the property is sold and the agent's and solicitor's fees have been paid, the balance is insufficient to repay the outstanding loan, neither you nor your estate will be liable to make up the difference.

- Right to move*
  Although you have the right to sell the property, you need to remember that your lifetime mortgage is a secured loan. If you do decide to move, and probably downsize, the new property must be acceptable to your mortgage provider, ie: it needs to be of sufficient value to continue to secure the loan. Some lifetime mortgages are portable, others are not, so it's worth checking if you think you may downsize at a future date.

- Repayments
  Making regular repayments will reduce the overall cost of the mortgage. If you do decide to make them your loan provider may base the amount you repay on your income and, if so, will need to assess your capacity to continue making them.

- Withdrawing small amounts
  You may not want to take the entire loan in one lump sum, choosing to drawdown from the loan as and when you need it. The advantage of this is that you only pay interest on the amount you've drawn down.

* These are Equity Release Council standards.

Home reversion

Home reversion means that you sell all, or a portion, of the property you call 'home' to a reversion company, receiving either a cash lump sum, a regular income or both in exchange. It's important to realize that you've 'sold' all or part of the property and that, as a consequence, you are no longer the sole owner. When the property is sold, the reversion company will receive that proportion of the sale price they purchased from you: if you sold 75% of your property to them, they will receive 75% of the proceeds and you'll receive 25%.

"Home reversion means that you sell all, or a portion, of the property you call 'home' to a reversion company..."

As the reversion company has purchased all, or part, of the property, and not made you a loan, there's no capital or interest to repay – however, although the property will remain yours to live in, and you retain a legal right to do so, effectively you have become a tenant, either in whole or in part.

As with a lifetime mortgage, it's important to balance how much of the property to sell against your financial needs; the less you sell to the reversion company, the more money you'll receive when the property is eventually sold.

Although home reversion plans have advantages, a major disadvantage is their actual cost, something which can be exacerbated by how long you continue to live in the property. If you move into care or pass away soon after you've completed the agreement, the property, which is now partly or wholly owned by the reversion company, will be sold. If you received a lump sum it may represent only a fraction of the property's actual value; if you chose to receive a regular income you may only have received it for a matter of months. Fortunately, some plans protect against this eventuality.

Home reversion: key points

- Minimum age
  The minimum age at which you can take out a home reversion plan is 55 although, generally, the majority of schemes specify a minimum age of 65. Despite this, as reversion companies pay proportionately more for your property the older you are, most plans tend to favour those over the age of 70.

- How much you'll receive
  Most reversion companies offer between 20% and 60% of the market value of the property, but this very much depends on your age and your health. The reason for this is that the reversion company only receives its money when the property is sold – if you're in your fifties and relatively healthy, that could be in forty years' time; if you're in your eighties and in poor health it could, sadly, be a lot sooner.

- Right to remain*
  You retain the right to remain in your property for life or until you need to move into long-term care. Unlike a lifetime mortgage, taking out a home reversion plan means that you give up your legal entitlement to the property and become a tenant in what was once your home, something many people struggle with. You may not pay rent but you may be liable for other costs relating to living in the property and you will be expected to maintain it and have building insurance.

- Negative equity guarantee*
  If, when the property is sold and the agent's and solicitor's fees have been paid, the balance is less than the amount the reversion company paid you, neither you nor your estate will be liable. This is one of the reasons that the amount you receive from the reversion company represents a fraction of its true value.

- Right to move
  Moving can be difficult, quite simply because you no longer own the property you live in. Although you have the right to live there, you don't own the property so you can't sell it without the owner's, or co-owner's, consent. It also means that, if you want to buy another property, you'll have to use the money you received from selling the property to the reversion company. When you move, be it to a new property, into long-term care, a relative's home or pass away, the reversion company will then sell the property – if you sold only part of the property to the reversion company, you, or your estate, will receive that part of the proceeds to which you are entitled.

* These are Equity Release Council standards.

Equity release: key points

Equity release may seem like a good option if your home has accumulated equity, you need some extra money and you don't want to, or can't, downsize – however, there are some important things to think about.

- The options
  The essential difference between a lifetime mortgage and home reversion is that, with a lifetime mortgage you receive a loan that you have to pay off but you retain ownership of your home, whereas home reversion means selling part, or all, of the property you call your home meaning you are no longer the (sole) owner.

> "The essential difference between a lifetime mortgage and home reversion is that, with a lifetime mortgage ... you retain ownership of your home..."

- Terms
  No term is specified in either scheme, the agreement continues until either the loan, along with any interest due, is fully repaid, or when you move from the property allowing the reversion company to sell it and recover its payment.

- The cost
  Lenders and reversion companies have to offer safeguards such as the 'right-to-remain' promise and the 'no-negative equity' guarantee, and take a calculated risk about what they'll receive and when they'll receive it. Consequently, although you receive a lump sum or regular income, the cost to you can be higher than traditional mortgages. If you take out a lifetime mortgage the amount you have to repay can grow rapidly, particularly if the interest is rolled up. If you opt for home reversion, you will receive only a fraction of the value of the property. In both cases, house price volatility is a key factor: if house prices fall, the value of the property may be insufficient to fully repay the lifetime mortgage or for the reversion company to recoup the amount it paid you.

- Inheritance
  You should remember that equity release will have an effect on future long-term care plans or what you leave as an inheritance. Although you may take a lifetime mortgage on just part of your property, the effect of repaying the loan and accrued interest may eat into the remaining value; and if the value of the property has fallen it may not be enough to repay the full amount. Similarly, home reversion means that when the property is eventually sold, you may only receive a proportion of its value – if you've sold it in its entirety, neither you, nor your estate, will receive anything at all.

- Tax free
  The money you receive through equity release is tax free – you don't pay Income Tax or Capital Gains Tax on either the loan or what you receive from the reversion company.

- Benefits
  The money you receive from an equity release plan may affect your entitlement to state benefits if they are provided by means testing.

- Fees
  You will be liable for any fees incurred, eg: arrangement fees, solicitor's fees and advice fees.

- Complexity
  Equity release schemes can be both complicated and expensive to unravel if you change your mind. If you took out a lifetime mortgage, you'll have to repay the loan and the interest that's accrued. If you opted for home reversion, you'll have to buy the property back from the reversion company at the prevailing market price – which could be more than twice the price you sold it to them for...

How can One Financial Solutions help you?

As with any decision that involves your home, it's vital that you get expert advice before making any kind of commitment. Although you may not lose the right to stay living in your home, getting equity release wrong could cause all sorts of financial difficulties. An independent financial adviser who understands equity release will be worth their weight in gold, will help arrange it and make sure you avoid the pitfalls.

One Financial Solutions is here to help you. Having discussed your circumstances, as a firm of truly independent financial advisers, we'll be able to give you the advice you need and make sure that the equity release plan we may recommend is selected from the whole of the market and is the best one for you.

As members of the Equity Release Council (www.equityreleasecouncil.com) we are committed to upholding its principles by promoting high standards of conduct and practice in the provision of advice about equity release.

> "Equity release schemes can be both complicated and expensive to unravel if you change your mind."

So, if you're thinking about equity release, want advice about how you may benefit and what to do next, please call us on 020 3714 9565 or ask us to call you by sending an email to admin@onefinancialsolutions.co.uk

Equity release reduces the value of your estate and may affect any means-tested benefits you're eligible for. A lifetime mortgage, which is a loan secured against your home, is the most popular form of equity release and you will still own your home. It is important to understand the features, costs and risks of a lifetime mortgage as it will reduce the amount of inheritance you can leave, and may affect your tax position and access to welfare benefits. An illustration will be provided to help you understand all risks.

One Financial Solutions is here to help you.

We advise on a wide range of financial services including protection for both you and your business, general and business insurance, savings and investments, commercial finance, pensions and auto enrolment, employee benefits, profit extraction and mortgages: our aim being to provide you with 'one solution' for all your financial needs.

We provide truly independent financial advice, sourced from the whole of the financial marketplace, for individuals and commercial businesses throughout the United Kingdom.

Please call us on 020 3714 9565 for a confidential conversation about how we can help you, or visit our website at **www.onefinancialsolutions.co.uk** for more information.

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