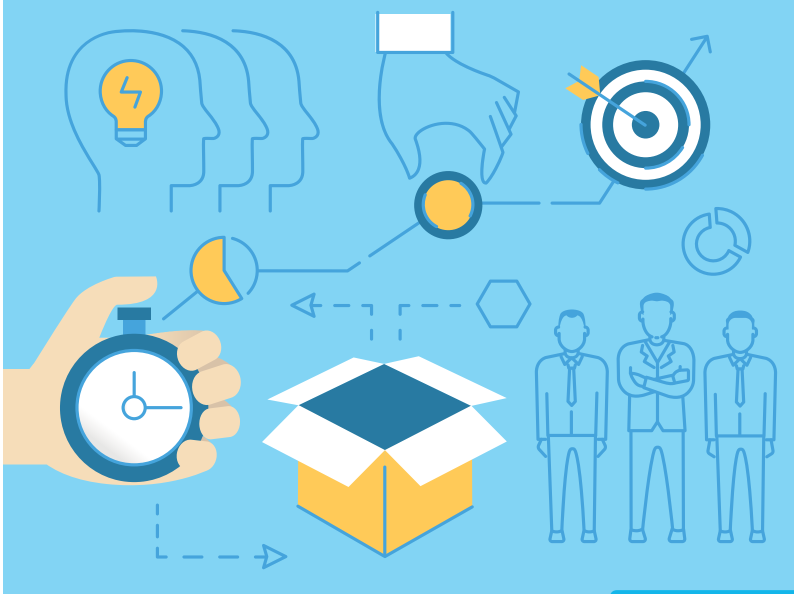

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An introduction to equity release

A guide to releasing value from your home.

For many individuals their home is their greatest financial asset once they have paid off their mortgage.

Research by Aviva found 69% of over-45s own a home that is worth more than their pension, savings and investments combined. For this group of people, property is likely to play a key role in financial planning in later life.

Perhaps the easiest way to access the wealth tied up in your property is to sell up, buy a cheaper home and use the capital from the sale however you want.

However, the Aviva research also debunked the stereotype of moving into a bungalow on the coast. 80% of the people surveyed want to stay in their own home for as long as possible. In comparison, just 26% have already downsized or plan to do so in the future.

So, it's not a surprise to learn that equity release – selling all or a part of your home while being able to remain living in it – is growing in popularity.

The Equity Release Council reports a 27% rise in equity release lending in the three months to June 2017, compared to the same period a year before.

Equity release allows you to receive money from your home as a tax-free lump sum, regular income or both.

Unlike conventional loans the debt does not reduce each month as it is repaid in full when you die or move out.

In order to be eligible, you will have to:

- be at least 55 years old (though this will depend on the lender and type of scheme)
- have paid off most or all of your mortgage
- ensure your property meets the lender's criteria.

There are two main types of equity release: **lifetime mortgages** and **home reversion plans**.

Lifetime mortgages

A lifetime mortgage is a type of loan which allows you to borrow a portion of the value of your home without having to sell or move house.

The amount you receive will depend on your age (the older you are, the more you can borrow) and the value of your property. For instance, 65-year-olds can usually borrow up to 30% but those who are older can borrow up to 50%.

You retain full ownership of your home and don't have to pay the loan back until you die or go into long-term care.

The money can be taken as a lump sum or in smaller amounts up to a maximum agreed limit.

How you access the money will affect the rate at which interest is added and, as a result, how much you have to pay back to the lender.

For example, if you take a large lump sum at the start of the loan, your debt will grow more quickly than if you decide to take regular, smaller sums over a longer period of time.

Types

There are several different types of lifetime mortgage:

Roll-up – you take a lump sum at the start and you do not pay anything back while you have the loan. Interest is added every year right from the start. When your home is sold the amount you borrowed, plus the interest, will be repaid.

This means the greater the gap between taking the loan and repaying it, the more interest will be accrued.

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Drawdown – you take an initial lump sum and also have the option of taking additional cash when you need it.

Interest only – you pay off some, or all, of the interest each month rather than allowing it to add up. The interest can be fixed or variable and the amount you originally borrowed is repaid when your home is sold.

Enhanced lifetime mortgages – if you have a lower than average life expectancy you may be able to access more money.

Home reversion plans

Home reversion plans involve selling all or a percentage of your house for less than the market value to a home reversion company.

You will also get a lifetime lease which allows you to stay in your home rent-free for life.

Like a lifetime mortgage, the money can be taken as a lump sum or regular payments.

The home reversion company will benefit from any rise in property prices on the part of the property they own.

For example, if your home is valued at £300,000 and you decide to sell 50% at 20% of its value you will receive £30,000.

When you die or move out, the home reversion company will own 50% of your home. So if the property has risen in value to £350,000, for example, you will receive £175,000 – but so will the home reversion company.

You may be able to access more cash in the future by selling off another portion of your home.

Things to consider

Tax position

Will your income tax position or entitlement to state benefits be affected if you choose equity release?

The future

Think about how an equity release scheme could affect your future plans. For example, you may want to downsize at some point but you may not be able to transfer your equity release scheme.

Inheritance

How will an equity release scheme affect what you will leave behind for your loved ones?

Fees and costs

There are fees and costs associated with equity release schemes. These include arrangement fees, valuation fees, legal costs and insurance.

Make sure you take all of these into account to understand the true cost involved before making a decision.

Charges

There might also be a rental charge or early repayment charge to consider (though this will depend on the type of scheme).

Advantages and disadvantages

It is important to understand the full impact of equity release before making a decision. Here are some of the benefits and drawbacks.

Advantages	Disadvantages
You don't have to move house	Your home will fetch less than full market value if you sell it through some types of equity release
You can use the lump sum or income to supplement other income	A lump sum or regular income could affect your entitlement to some benefits
You will normally be able to remain in your home until you die or go into long-term care	Your spouse or civil partner may have to move out if the plan ends on your death
You still own your home	You may not be able to transfer the scheme to a new property if you wish to move
	You may be charged if you repay the loan early

Get advice

Equity release is just one way to free up some of the value of your home and there may be other options that suit your circumstances better.

Contact us to discuss if equity release suits you.

Important Information

The way in which tax charges (or tax relief, as appropriate) are applied depends on individual circumstances and may be subject to change in the future.

This document is solely for information purposes and nothing in this document is intended to constitute advice or a recommendation. You should not make any investment decisions based on its content.

Your home may be repossessed if you do not keep up repayments on your mortgage.
Equity release may involve a lifetime mortgage or a home reversion plan. To understand the features and risks, ask for a personalised illustration.
Equity release is not right for everyone. It may affect your entitlement to state benefits and will reduce the value of your estate.

While considerable care has been taken to ensure the information contained in this document is accurate and up-to-date, no warranty is given as to the accuracy or completeness of any information.