

Hoare Jacques



Our Guide to Equity Release - unlocking equity from your home

"For Specialist Independent Financial Advice for Equity Release funding we can help you through the turmoil of establishing Equity Release Plans – also called Lifetime Mortgages, Home Reversion Plans or Home Income Plans – are a way of unlocking equity, whether to buy that new car, to pay for a holiday or home improvements, or simply to make daily life more comfortable by raising additional income . These schemes essentially allow you to borrow money against the value of your home, with the debt being repaid from the sale proceeds after your death"

**Call us for a FREE initial consultation today
Tel: 01323 721721**

"Naturally all clients will have differing circumstances and therefore our role is to devise strategies to ensure these are met whilst maintaining a long term relationship with our clients. We will be able to help you regardless of how simple or complex your financial circumstances are we offer FREE initial consultations which are conducted without charge or obligation."

"Equity Release" refers to home reversion plans and lifetime mortgages. To understand the features and risks, ask for a personalised illustration.

You can pay a fee of £549 on application and we will retain the commission from the lender.

Or

Alternatively the fee only option is 1.5% of the loan amount subject to a minimum of £1549 on application. You will then receive the commission paid by the scheme provider once it has been paid to us.

Either way, you can be certain of quality, specialist advice from our experienced Specialist Independent Financial Adviser

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'Equity Release Plans' – An Overview

The issues surrounding pensions in the UK affects us all, but it is already a very real and daily challenge for millions of retired Britons.

However, many retired people who manage on a small pension and limited savings are also living in properties which, even with the recent house prices falls are still worth a great deal of money. The average house price in England and Wales is now standing at £155,968 (Source August 2009, see www.landreg.gov.uk/houseprices/).

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'How Equity Release plans work'

While there are a range of different schemes offering lump sums and/or regular income, they all work on the same principle: they lend you a part of your home's value in return for a share of the proceeds when you die.

In most cases you will need to be at least 60 years old, have no outstanding mortgage (or you will need to use the equity release money to pay down the existing loan), and own a property in reasonable condition.

Equity release plans can be complicated products and are a major step for many people. Your house is almost certainly the most expensive asset you own; it is also your home. Good advice is essential.

Age Concern and the Financial Services Authority, the UK's chief financial watchdog, both recommend getting independent financial advice before proceeding.

An Independent Financial Adviser (IFA) will look at your overall finances to see if equity release is really the best option for you, help find the right type of scheme – bearing in mind that in some cases you could risk losing state benefits and may have to pay extra tax.

'Equity Release Plans' – their attractive features

- They can give a lump sum, a regular income or both. The lump sum could be tens of thousands of pounds; the income boost might be worth as much as a hundred pounds a month or even more.
- Money released from the value of your principle residence is free of tax, although if the cash is then invested there may be tax to pay on any income or growth.
- You don't have to move house or sell your home to unlock equity. With reputable equity release schemes there is a rock-solid guarantee that you will be able to continue to live in and enjoy your home until the day you die – and in many cases still be able to leave something of the property's value to your family.
- Of course, if you don't have children or family to leave your property to, then equity release might seem an even more attractive concept.
- They can also be used to pay for care bills without having to sell up at what can be a traumatic enough time.

'Equity Release Plans' – their negative features

- Equity Release schemes may work out more expensive than alternatives such as downsizing to a smaller property.
- Equity Release can affect eligibility for state benefits and grants.
- Equity Release can limit a customer's options for moving house in later years.
- Lifetime Mortgages can quickly erode the remaining equity and as a result there may be no value left to pass on.

Equity Release will not suit everyone. It is always worth considering whether funds could be raised affordably from other sources before going down this route.

Types of Equity Release schemes.

Here are the main equity release schemes with their pros and cons:

'Home Reversion Plans'

You sell your home or a share of it to a reversion company for a lump sum or in return for a monthly income (or a combination of both).

Technically you become a tenant, albeit with the right to continue living in your home rent-free (or sometimes for a nominal rent) for the rest of your life.

When the property is sold – usually when you die – the reversion company gets its payout. If, for example, you sold 50% of your property to the reversion company, it gets 50% of the proceeds – including any growth. If you sold 25% of your property, it gets 25% of the proceeds, and so on.

In addition, the reversion company will also only pay you a percentage of the current market value for the share of your property it buys. This is because you get to carry on living in the property until you die, and the company may have to wait years for its return. If you sell all of your property to the reversion company, for example, you will typically get between 30% and 50% of its current value. It will rarely be more than 60%. The actual figure will depend on your age (and your partner's). Older people will get more, and men get more than women – because of differences in how long they are expected to live.

'Home Reversion Plans'- Cont

Pros

- No ongoing repayments, the reversion company makes all of its money when the property is sold.
- You know at outset what share of your home (if not its value) you will be leaving to your family.
- You continue to share in any rise in the value of your property (unless you have sold its entire value).
- You can take extra cash advances, depending on the amount you originally took.
- If you are a smoker or have a serious illness, you may be able to get a bigger payment.

Cons

- The reversion company will buy at a discount to the current market value. The big discount at which the reversion company will want to buy makes these schemes less suitable for people in their 60s.
- If you die soon after taking out a plan, you could effectively have sold off your house (or a share of it) on the cheap. Some schemes give families a rebate if you die within the first few years of signing up.
- Reversion companies can be choosy about which properties they take.

'Interest-Only Mortgages'

You borrow a lump sum secured against the value of your home. You pay interest each month, but you have a lump sum to spend as you wish. The capital is eventually repaid out of the sale proceeds.

Pros

- The amount you owe is fixed so any increase in the value of your home belongs to you or your family.
- You can borrow at a fixed rate so you know exactly what you have to pay every month.

Cons

- You need to be able to afford the ongoing interest payments: you should think about investing the lump sum you borrow.
- Many schemes involve buying an annuity. Because annuity rates are so low and they increase with age, these schemes are often only suitable for elderly homeowners.
- Variable rate loans can be very risky: your payments could rise more than your pension or other income.

'Home Income Plans'

These used to be the most popular type of equity release plans. You take out a mortgage against your home and use the money to buy an annuity which guarantees you an income for life. Mortgage payments are deducted from this monthly income, although the original capital is only repaid from the sale proceeds, normally after you die.

Pros

- Regular income for life and the mortgage interest is deducted automatically.
- The amount you owe is fixed and any increase in the value of your home belongs to you or your family.

Cons

- Not suitable for those looking for a substantial lump sum.
- Income is normally fixed at outset, so will be eroded by inflation.
- Built-in annuities are not the most competitive – you are generally better off shopping around for an annuity (if the plan permits this) or investing the money elsewhere.

'Lifetime Mortgages'

The lender gives you a lump sum or monthly income (or both). You pay nothing – the interest is 'rolled up' into the loan. The amount borrowed plus this interest is repaid out of the proceeds from the sale of the property after you die.

How much you can borrow depends on the value of your home and your age – the older you are, the higher the percentage of your property's value you can borrow. Generally, you will not be advanced more than 50% of the value of the property.

Pros

- No interest payable while you are alive, so you will get a higher income for the same sized loan than with an interest-only mortgage or home income plan.
- Most loans are fixed-interest, so reducing risk.
- Plans are available to people as young as 55.
- The provider of a lifetime mortgage will be authorised and regulated by the Financial Services Authority.

Cons

- The uncertainty about how much will have to be repaid at the end – and how much will be left for your family.
- Interest payments can mount up quickly and will further reduce what your family will inherit. Your family could end up with nothing from the sale proceeds even though the lump sum you were lent only seemed a fairly small proportion of the home's value.
- Interest rates can be high.
- You may not be able to get a top-up loan later.

Important points

Your family

While it should ultimately be your choice whether to sign up to a scheme, it is probably a good idea to discuss it with close family members and/or anyone who might have expected to inherit your home. This may help avoid any unpleasantness or misunderstandings.

If the property has been a family home for a long time, bear in mind that your children or other relatives may also have an emotional attachment to it. They may even have been thinking of living in the property after you die.

Children or other relatives may be prepared to help you out financially instead of you taking out an equity release plan. They could then inherit the whole property. An IFA will be able to advise on any tax issues involved.

Alternatives

You may have other assets or investments which could boost your income or give you the lump sum you need. An IFA will be able to take a holistic view of your finances.

Consider, too, whether moving to a less expensive property might be a better way of releasing money tied up in your home – rather than letting an equity release company profit from your bricks-and-mortar investment.

Benefits

If you receive means-tested state benefits, these could be reduced or lost altogether – which in turn could mean having to pay more for things like dental treatment and glasses. Check the rules before you take out an equity release plan.

How to avoid any risk

Look for plans carrying the **SHIP logo (for Safe Home Income Plans)**. SHIP is an industry body set up to promote safe equity release schemes. Companies who are members provide a number of guarantees, including: you will have the right to live in your property for life; the freedom to move to an alternative property without penalties; and that you will never owe more than the value of your home.

If the scheme's income comes from an annuity, you'll get a better rate the older you are.

If you are just retired, it may be worth waiting a few years before signing up to an equity release scheme in order to get a better deal.

Equally if you are very old or in poor health you should think carefully about schemes paying monthly incomes – you may not live long enough to get a decent return.

Costs

The equity release market is becoming more competitive. But interest rates on mortgage-based schemes, for example, are still noticeably higher than those on ordinary mortgages. Most equity release plans also involve paying valuation and legal fees, although these may be refunded assuming you go ahead. You remain responsible for repairing and insuring your home, and will still have to pay the council tax. Reversion companies in particular will expect you to maintain your home to a reasonable standard to protect their investment.

Can you move or sell up?

You may want to sell your house at a later date and move somewhere smaller or more suitable for your needs, or you may want to sell up completely to move into rented sheltered housing or into a care home. You should check whether any plan you are considering allows you to transfer it to a new property or whether there is a penalty if you end the scheme before death.

Advice

Getting independent financial and legal advice before taking out an equity release plan is recommended by both the charity Age Concern and the Financial Services Authority, the UK's chief financial watchdog.

For information on the subject contained in this guide, please contact our Specialist Independent Financial Adviser,

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If you are looking for advice on personal finances

Visit our website at:

www.hoarejacques.co.uk