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Residential Property

Releasing Equity In Your Home

Suitability

Equity release can be a way for older homeowners to use the value of their home to provide a lump sum or additional income, while still continuing to live there.

- Most schemes are only available to individuals who are at least 55-60 years old.
- The amount of capital or income you can expect generally depends on your life expectancy. This means that the older you are the more likely equity release is to be financially viable. You may also benefit (financially) if you have a below average life expectancy - for example, because you are a smoker.
- You must own your own home and have little or no existing mortgage. Some lenders will only offer equity release for freehold houses, but others will also consider flats owned on a long lease.
- You can arrange a scheme in joint names for you and your partner. Equity release may not be suitable if you have other dependents living with you, as your home will normally need to be sold when you die.
- The costs of arranging equity release mean that it is unlikely to make financial sense unless you want to release a significant amount of capital - typically at least £25,000.
- By increasing your income and savings, equity release can affect your rights to any state benefits you receive, so reducing the overall increase in your income.<.li>
- Although most schemes offer a reasonable degree of flexibility, equity release tends to be most suitable for individuals who want to continue living in the same house for as long as possible (ideally for the rest of their lives).

Lifetime mortgage

With a lifetime mortgage, you borrow against the value of your house. The loan is normally repaid from the sale of your home when you die or go into care.

- The mortgage can provide a lump sum, an agreed monthly income for the rest of your life, or a drawdown facility allowing you to borrow (up to a set limit) as and when you want.
- The interest rate is often fixed for the life of the loan, though in some cases a variable rate is an option.
- Interest on the loan is normally rolled-up - ie added to the outstanding value of the loan. Over time, this means that the total debt can increase dramatically - and could become larger than the value of your house, even if house prices continue to increase. Mortgages of this kind are not generally suitable for younger individuals (say below 65) with longer life expectancies.
- With a fixed repayment scheme, the total due when you die is agreed at the outset (based on your life expectancy). There will be an additional interest charge for any delay between your death and the repayment of the loan.
- Some schemes use the capital you raise to produce an income - part of which can then be used to cover the interest payments. However, it is unlikely to be possible to generate enough income unless you have a relatively low life expectancy (eg aged 80 or over) or take excessive risks with your capital.

Home reversion

With a home reversion scheme, you sell the lender part or all of your home. You then become a tenant.

- The amount you are paid will be a percentage of the value, to take account of the fact that you continue to live there and do not pay any interest on the amount you have been paid. The percentage typically varies between about 15% and 50%, depending on your age.
- You can be paid a lump sum or an agreed monthly income. Home reversion schemes can also be offered on a drawdown

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basis, where you can sell additional percentages of your home as and when you want to release more capital.

- Most schemes entitle you to live in the house for a token rent. Some agreements pay you a larger initial sum but then charge a higher rent to compensate.
- Most schemes give you the right to remain as a tenant for the rest of your life. Like any tenancy, the exact terms of the agreement should be carefully checked.
- If you only sell part of your home, you (or your estate) are entitled to the remaining share of the proceeds when the house is sold.

Vulnerable families

- In September 2008, the government announced a new scheme for families who can no longer afford their mortgage repayments, and who would be eligible for homelessness assistance if they lost their home. These schemes are not yet in force, but contact us if they may apply.
- Local authorities will decide who is eligible (and will exclude homeowners who have been reckless or irresponsible). There are three options:
- shared ownership: a registered social landlord buys a share in the house so that the homeowner can pay off some of their mortgage. The landlord then issues a shared ownership lease of the property;
- shared equity: a registered social landlord makes a loan to the homeowner, so he can reduce his mortgage payments.
- sale and rent back; a registered social landlord clears the mortgage completely, and the homeowner pays rent to the landlord instead.

Key questions

Releasing equity can have serious disadvantages. Before committing to a scheme, ensure that you are happy with the answers to these key questions:

- Have you received independent expert advice? You should take advice from an independent financial adviser regulated by the Financial Services Authority, as well as having your solicitor review the terms of any legal agreement.
- Is the scheme you are considering covered by the Safe Home Income Plans (SHIP) scheme? Most equity release companies are members of SHIP. Amongst other things, this guarantees that you will never owe the lender more than the value of your house ("negative equity").
- What are the initial charges? Typically you will be charged arrangement, valuation and legal fees similar to the fees charged for an ordinary mortgage.
- What interest rate will be charged? The interest rate on a mortgage might be fixed or variable. A variable rate may benefit from being capped at a maximum rate.
- Do all the finances add up? As well as rent or mortgage interest, you will still be liable for bills such as utilities, repairs and council tax - and inflation will increase these costs over time.
- What happens if you want to move home? Most schemes, including SHIP schemes, can be transferred to a new property provided it meets the lender's criteria.
- What early repayment charges are there if you want to get out of the scheme? These can be very substantial - for example, you might need to buy back any share of the house you have sold, at a higher price.
- Under what circumstances might you be forced to leave your home? You might have to leave if you break any terms of the agreement: for example, if you cannot meet payments because interest rates increase or you have given away the capital you received.
- Are there any other key terms to the agreement? For example, some home reversion schemes offer protection if you die within a few years, increasing the share of the value of your home that passes to your estate.

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- What are the tax implications? Income tax may be payable on any income you receive, depending on the circumstances. By reducing the value of your estate, equity release may reduce your eventual inheritance tax liability.

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