Equity Release Factsheet

Our Equity Release team provides specialist legal advice on lifetime mortgages and home reversion plans. We are the only member of the Equity Release Council in Wiltshire, Somerset and Bristol. The Council represents and sets the standards for the equity release market, and as members, we are committed to acting professionally and with transparency in offering high quality advice to homeowners.

Speak to one of our specialist Equity Release Team on 01225 755656.

What is equity release?

If you are 55 or over, equity release allows you to continue living in your home whilst also releasing some of the equity. This money can provide a welcome boost to insufficient pension income or perhaps allow you to repay an existing loan or mortgage or help a family member with a deposit for their first home.

Usually, the lender reclaims the funds on the sale of the house after your death or when you move into long-term care.

How does equity release work?

There are several different schemes available, but they essentially fall into one of the following two categories:

- Lifetime mortgages
- Home reversion schemes

Lifetime mortgages

With a lifetime mortgage, you take a loan secured on your home. Typically, the scheme ends when you die or move into long-term care and the property is sold. The outstanding mortgage is repaid from the proceeds of sale. Under this arrangement, you continue to live in your home for as long as you want to.

With lifetime mortgages, you are not required to make any interest or capital repayments until your home is sold, when the initial loan and accrued interest are repaid from the sale proceeds. Most schemes will allow voluntary repayments to be made before a sale, subject to lender criteria.

Home reversion plans

Home reversion schemes allow you to sell part or all of your home to a home reversion provider in return for regular payments or a lump sum. Although you have the right to continue living in the property, you must agree to maintain and insure it.

Home reversion schemes are far less popular than lifetime mortgages as a way of releasing equity from your home as legal ownership transfers to a home reversion company. You are then granted a lease of the property, giving you the right to continue living in your home.

Lifetime mortgage vs Home Reversion

The main differences between the two are:

- **Benefit from increased value**. With a home reversion you have sold your home or a proportion of it. This means that you or your beneficiaries will not benefit from any increase in the property's value over time (or only on the portion you have retained). On the other hand, with a lifetime mortgage, you still own your home, and any increase in its value will benefit you or your beneficiaries. Any additional value can be used to help pay off the mortgage.

- **Interest**. Under a home reversion scheme, no interest accumulates as you have received less than the market value. With a lifetime mortgage, interest 'rolls up' to the total amount repayable unless you choose to pay it monthly.

- **Age to apply**. For a lifetime mortgage, you (or both of you for a joint mortgage) must be at least 55. For a home reversion plan, you (or both of you for a joint plan) must be at least 65.

Key considerations

Equity release is not a step that anyone should take lightly. Everyone's circumstances – financial, family, health – are different, as are your future plans and aspirations. Before proceeding, you should always take independent legal and financial advice and allow time for calm reflection. If you feel pressured by anybody – walk away. Here are some key considerations:

- **Alternatives**. Is there a more efficient way of raising the required capital?

- **How much can you borrow?** You can normally expect to receive around 60% of your home's value for a lifetime mortgage or between 20% and 60% of the value for a home reversion, with your age and health being significant factors.

- **Interest rates**. The rate you pay must be fixed, or if it is variable, there should be an upper limit for the life of the loan.

- **Lifetime occupation**. Always check that you can continue to live in the property for life, or until such time as you may move into long-term residential care.

- **Moving home**. With a lifetime mortgage scheme, you still have the option to move home, but the longer the scheme goes on, the less equity you will have to achieve this.

- **Negative equity**. You should check that there is a 'no negative equity' guarantee. Avoid any scheme where, if the total debt is more than the value of your home, your estate will be responsible for the shortfall.

- **Lump sum vs smaller payments**. With a lifetime mortgage, you may have a choice between a lump sum, smaller sums as and when you need them, or a combination of the two. An advantage to taking smaller sums is that less interest will accrue, but you should check whether there is a minimum amount you need to pay.

- **Means tested benefits**. If you receive (or might qualify for in the future) means-tested benefits, your eligibility may be affected by a capital drawdown from equity release. Common examples of such benefits are pension credit, council tax support, and cold weather payment.

- **Tax**. Will the extra income/capital affect your tax position?

- **Ringfence**. Check whether you can ringfence an agreed portion of your property for your family to inherit.

- **Your age**. The usual age requirements for each type of scheme are set out above. With a lifetime mortgage, you should bear in mind that the younger you are at the scheme's inception, the greater the repayment is likely to be.

- **Inheritance**. What is your attitude towards inheritance? Should you first discuss things with your family?

- **Hidden costs**. Are there any hidden costs, eg survey fees, legal fees or an arrangement?

- **Early repayment charges**. There will normally be an early repayment charge if you repay your lifetime mortgage before you die or go into care.

Other options to equity release

A major consideration is whether you have other options to equity release. It may come down to the question of why you need the money. If you require a one-off lump sum for a specific purpose, depending on your circumstances, a personal loan may be both a more appropriate and cheaper long-term option.

Some people choose equity release to fund home improvements, including changes to facilitate disabled living or the advancing limitations of age. If that is the case, it is wise to first investigate whether grants are available to fund or subsidise the work. If so, that may negate the need for equity release.

Downsizing may be an appropriate alternative to free up some capital, but that comes with its own costs, which must also be taken into consideration. These will include conveyancing fees, estate agent's commission, surveyor's costs, stamp duty, and the cost of removals.

What are the costs of equity release?

Equity release requires input from a number of professionals. Broadly, the fees involved will include:

- solicitor's costs and disbursements
- equity release advisor/financial advisor/broker's fees
- lender's application fee
- valuation fee

Typically, the greater part of the cost is the fee of the equity release advisor/financial advisor/broker. This can vary dramatically, particularly as some base their fee on a percentage of the amount you borrow, so it pays to shop around.

Equity Release Council

The Equity Release Council is supported by the leading providers of equity release schemes. Its purpose is to protect those who take out equity release schemes.

Companies that subscribe to the Equity Release Council guarantee that you or your estate will never owe more than the value of your property. Often referred to as the no-negative-equity guarantee, it means that you can live in your home:

- for the rest of your life; or
- until you have to go into long-term residential care; or
- until you decide to move.

Contact

Our specialist Equity Release Team are available on 01225 755656.

Visit our dedicated webpages by scanning the QR Code.