EQUITY RELEASE

Equity is the difference between the value of your home and any mortgage or debt secured against it.

Equity release is a way of unlocking the value of your property, without having to sell it or move home. It is used mostly by older home-owners who either have paid off their mortgage or have only a small amount left to repay. “Equity release” is the general term for describing all methods of releasing funds from residential property.

There are two main ways in which you can release equity from your home.

You can either:

- sell part or all of your home to give you a regular income and/or lump sum. These plans are known as Home Reversion Plans; or
- take out a loan secured on your home (mortgage). Typically, these are known as Lifetime Mortgages

Home Reversion Plans – selling your home (or part of it) - A Home Reversion Plan involves the homeowner selling either a full or a part share in their property to a home reversion company in return for either a monthly income or a lump sum. You retain the right to live in the property for the rest of your life until you die or move into a nursing home. If you opt for a “full reversion”, the home reversion company owns your home outright, including any increase in value since the date of sale.

When the house is sold, the proceeds are split according to the equity share owned by you and the home reversion company. We are not authorised to advise on Home Reversion Schemes.

Advantages

- With a partial Home Reversion Plan, you can leave the unsold proportion of the value of your property to your beneficiaries

Disadvantages

- You sign away a proportion, or all of, in the case of a full reversion plan, any increase in the value of your property.
- You will not get the full market value when you sell your property (or part of it) to a home reversion company. Typically companies will only pay from 40% - 60% of your home’s current value, sometimes less.
- You cannot change your mind once you have taken out a Home Reversion Plan.It is important to make the right decision at outset.

EQUITY RELEASE - continued

Lifetime Mortgages

There are special types of loans, usually designed to run for the rest of your life, called Lifetime Mortgages. You borrow money secured against the value of your home to give you a lump sum or a regular income. The loan is repaid to the lender when the property is sold, on death, or when you move into long term care.If there is any money left after the loan is paid off, it will go to your beneficiaries. You continue to own your home.

There are two main types of Lifetime Mortgages - interest only mortgages and roll up mortgages.

Interest only mortgages

With an interest only mortgage, you borrow a lump sum secured against the value of your home. You pay interest on the loan each month, and the lump sum you originally borrowed is repaid when your home is eventually sold. You need to be able to afford the interest payments out of your pension or other income.

The interest rate may be fixed or variable. But if it is variable, and your pension or other source of income is fixed, you will find it more difficult to meet your repayments if interest rates rise.

Roll up mortgages

No interest payments are made to the lender. Interest is rolled up and paid on redemption, death or when the person moves into long term care.
With both types of Lifetime Mortgages, some lenders allow you to take a regular income rather than a lump sum. This can mean that you accrue less interest as interest is only charged on the amount you actually receive – i.e. interest is only charged on the monthly payments you receive.

Most lenders offer a 'no negative equity ‘guarantee. This means that the amount you owe can never be more than the value of your home. Even if the amount you borrow (plus the rolled-up interest) is more than your property's selling price, you will not have to repay any more than the amount your home is sold for.

Advantages of Lifetime Mortgages

You benefit from any future house price inflation

Disadvantages of Lifetime Mortgages

With a rolled-up interest loan, the amount you owe continues to grow.This means that there could be no value left in your home to pass on to your family.

Home income plans

A home income plan allows you to borrow a cash sum against the equity in your home while retaining ownership of your property. The proceeds of a mortgage loan are used to purchase an immediate life annuity. Part of this annuity pays off the fixed interest mortgage debt, with the remainder providing a regular monthly income. Annuity rates depend on your age and state of health, which means that these types of loan are only really suitable for very elderly home-owners. They have declined in popularity recently with falling annuity rates.

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