Hawsons

Equity Release Guide

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Equity Release Guide

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Hawsons - Guide to Equity Release

If you have a lot of value (equity) tied up in the property where you live and you want to have some cash to use, to perhaps help your family, or upgrade or repair your house or maybe go on a big holiday, you might want to release some of that value by taking out a loan against the value of the house. The lump sum or regular payments you receive are not subject to tax like other forms of income/capital can be.

Deciding if you wish to proceed with equity release is a big decision that should not be entered into lightly or in a rush. You should speak with a qualified equity release adviser to explore if there are alternative options to help you achieve what you are looking to do.

This guide explains in detail what equity release is, what the different stages in the process are and the types of costs involved together with the potential benefits and risks associated. We will explore the topic in full and can help you decide if it is right for you given your individual circumstances and needs.

To re-iterate, it is important to get professional financial advice before making a decision about equity release. If you decide to go ahead with it, you will also need to engage a solicitor to provide legal advice throughout the process.

What is Equity Release?

Simply, equity release is a way of accessing some of the value tied up in your home without having to move. However, it is not as straightforward as it might seem. Before you go ahead with equity release, it is important to find out exactly what it involves, what the risks are, and what other options you might have.

Lifetime Mortgage

There are two main types of equity release plan, the first is known as a lifetime mortgage. This is the most popular type of arrangement. It is a loan secured against your home for your lifetime, the money does not need to be repaid until you die or if you move into permanent long term residential care. Unlike a common mortgage where you make regular interest payments on your loan, you can choose to let the interest be added to the amount you have borrowed. This can mean the amount you owe quickly builds up. It will be paid off eventually, either when you die, or move into residential care. You can get a tax-free lump sum and/or smaller, regular payments to supplement your income. You will continue to benefit from any rise in the value of your property. However, this might be outweighed by the amount of interest that is due when the loan is repaid if you have chosen not to pay interest on a regular basis.

You can release equity either via a lump sum, or some lenders will allow you to place a reserve against your home and you pay interest at the prevailing rate as, and when you withdraw from this.

Interest is usually fixed for life on equity release products.

Home Reversion Plan

The alternative to the lifetime mortgage is called a home reversion plan. This allows you to sell part (or all) of your home to a "Reversion Company" while you stay living in it.

When your home is eventually sold, because you have passed away or moved into permanent residential care, the reversion company get a share of the proceeds. Thereby recouping the money, they allowed you to originally have, plus some interest. They will not pay you the full market rate, so the value of your estate might be significantly reduced if you die relatively shortly after taking out the plan.

Due to the structure of home reversion plans these are not very popular nowadays and therefore this guide will naturally focus more on the lifetime mortgage product.

Who can take out an Equity Release plan?

Equity release plans are not available for everyone. There are a number of criteria that need to be met before you can be considered.

Your age

For a lifetime mortgage, you (or both of you, if you're borrowing jointly) need to be at least 55 years old. For a home reversion plan, you (or both of you, need to be at least 60 years old). Your age will also affect the maximum amount you can borrow or sell.

Your Property

You must own your home and it must be your main residence. In general, the property should be in a reasonable condition and over a certain value. Certain types of property may not be accepted. The criteria for the individual lenders should be checked to find a compatible provider. This is where your adviser will help by understanding in detail each providers lending criteria.

Something also worth noting is that there are providers who allow equity release on buy to let properties. Again, your adviser will know more about this.

Your family or dependants

If you live with any dependants, for them to stay in the property with you, they will normally have to sign a letter known as a waiver confirming that they understand they do not have the right to continue living in the property if you were to pass away or move into permanent residential care. If you and your partner take out an equity release plan together, your partner might have to pay off the lifetime mortgage or home reversion plan if you pass away or move into permanent residential care, this could mean selling or giving up the property.

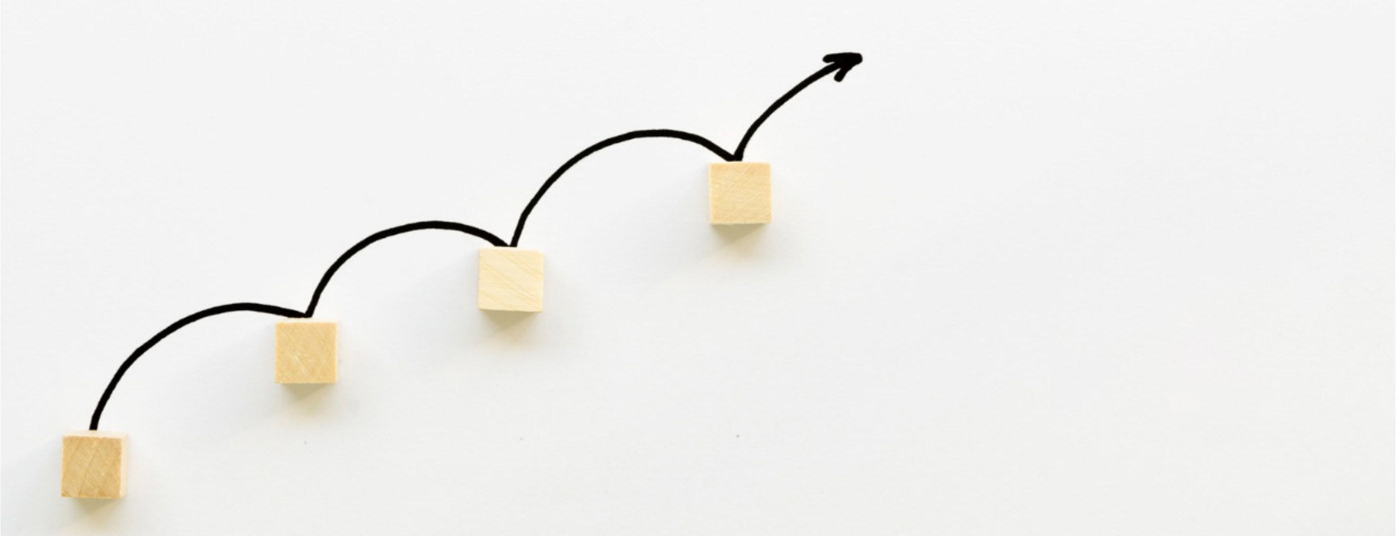
Existing mortgages or loans secured on the property

You might still be able to initiate taking out an equity release plan if you have a mortgage or other loan secured against your property. It will depend on the property value and the amount you have outstanding. Any outstanding mortgage or secured loan will need to be cleared at the same time as taking out the equity release plan.

A no negative equity guarantee

Ensure your lifetime mortgage provider offers a 'no negative equity guarantee.' This gives you the piece of mind that when the property is sold, you or your estate will not have to repay more than the sale proceeds you receive, even if they are less than the amount you owe.

What is the process for Equity Release?



Step 1

Firstly, it is recommended to find a specialist and experienced adviser. Many firms will allow an initial free of charge no obligation face to face/online meeting or a phone call. It is important to feel at ease with your adviser and be open and honest about your aspirations and financial situation. An adviser will go through an initial disclosure process at this meeting. This is where they tell you details about them and the firm they represent. They will provide you with an Initial Disclosure Document (IDD). The IDD is a document designed to help you compare firms, such as financial advisory firms, banks or building societies. The document will detail a few vital pieces of information such as how the advice is given (independent/restricted), example of costs and when these become payable (at application/completion/upfront etc.), regulatory body, complaints procedure etc. You may be wishing to see a few firms and by receiving the IDD you can then make a better comparison.

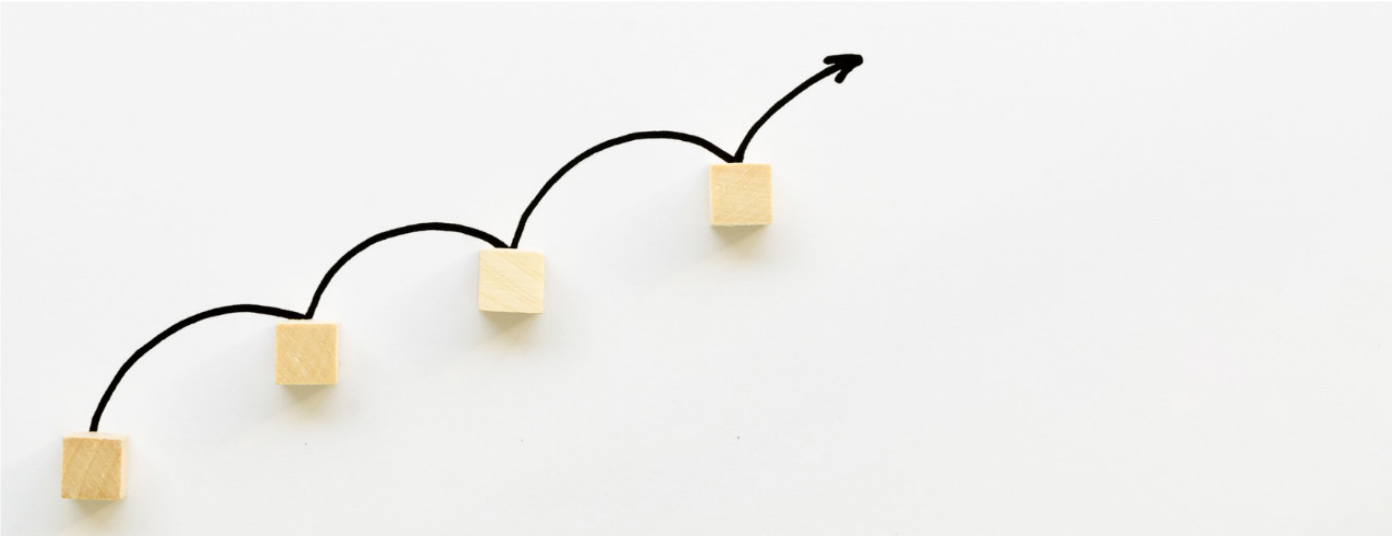
Step 2

Once you have chosen your adviser the next stage is to let them carry out a more in depth 'fact-find' meeting. This is where they will ask lots of questions about your personal and financial situation including soft facts about your aspirations and in addition to this your capacity and attitude towards risk. This information is all taken in confidence and strictly for the purpose intended. It is so important to be as open and honest with you adviser in these meetings as they will then be able to provide much more tailored and accurate advice and recommendations. At this point your adviser is likely to ask for identification and details of your property and other assets, even information on the lease if your property is leasehold. If you are seeking advice from an independent adviser they will provide full holistic advice, unless you specifically ask them to restrict their advice to one area.

Step 3

Once your adviser has completed their fact-finding process, they will then be able to let you know if based on their professional opinion, you and the property in question are eligible for equity release. Your adviser will then provide you with a written recommendation and supporting information such as illustrations which show data such as the likely costs, interest rate applicable, any associated risks and what your commitment to the contract is, to name a few. Paperwork can be daunting for some people and your adviser's job is to make this understandable and clear so that you are fully aware of what you are entering into. Your adviser will walk you through this paperwork and ask you questions about your understanding as they go along. Your adviser should allow you to ask questions at any time and should not rush you to make decisions.

What is the process for Equity Release?



Step 4

Once you accept the recommendation, your adviser will then need to submit an application to the recommended lender. Most of the information they need for this, they are likely to have gathered in steps 1-3 but they may require more documentation from you, for example, copies of the lease if your property is leasehold. The lender will then carry out a valuation on the property.

Step 5

Once the lender has then accepted the application, and carried out their necessary checks, they will issue an offer letter. This confirms that subject to the necessary legal checks you will be able to have the loan.

Step 6

Your solicitor will then need to be instructed and will begin their work. Aside to the conveyancing and ensuring the lenders legal charge is satisfied, they are also required to ensure you have sought independent legal advice about the benefits, risks and obligations of taking equity release.

Once all these steps are satisfied the mortgage will reach the completion stage and you will be paid the release or the reserve will be placed with the lender for you to withdraw as and when you require.

Who are the specialists that can help me?

Financial Adviser

It is important to seek financial advice from an equity release specialist to help you decide whether equity release is right for you. Make sure they are authorised by the Financial Conduct Authority (FCA) and are qualified and experienced in giving equity release advice. Check to see if they are restricted to recommending products from just one or two firms or they are operating on a fully independent basis.

Solicitor

When moving forward with an application for an equity release plan you will need to take independent legal advice. This can be provided by a specialist equity release solicitor and is a requirement of the equity release process. If you have a solicitor that you normally use your adviser will be able to check with the equity release lender that the solicitor is on their panel and meets their requirements.

Benefits and drawbacks of Equity Release

Remember, equity release is a secured loan against your property, repayable on you moving into permanent long-term care or earlier death.

The inheritance you wish to leave for your family will be reduced by the amount owing on an equity release mortgage.

Interest rolls up/compounds over time which will increase the debt owing. Many providers let you voluntarily cover the interest payments if you wish to try and manage the increasing debt. Unlike a traditional mortgage this is not part of the agreement meaning you can choose to make payments or not. These usually cannot exceed more that 10% of the amount owing without triggering other costs/charges.

Because equity release mortgages are designed to be a 'lifetime' mortgage they will have early repayment costs should you wish to repay your debt early. These can be substantial.

You will pay set up/product costs, advice costs as well as legal fees when taking out an equity release mortgage.

You will not be able to take out another secured loan against your home if you have an equity release mortgage. Equally, any existing secured debt will need to be repaid if you are taking out an equity release mortgage.

Taking out an equity release mortgage could have an impact on any Means Tested State Benefits you are in receipt of. Your eligibility for means tested benefits is likely to be impacted by the fact that you now have a capital sum. If you receive any of the following you could lose them altogether:

- Pension Credit
- Jobseeker's Allowance
- Income Support
- Income-related Employment and Support Allowance
- Universal Credit
- Financial support with Council Tax or paying for care services.

Equity release is a tax-free option. You can receive a lump sum or regular payments and these are not taxable on you unlike other forms of income such as a pension.

By taking equity release you could reduce the value of your estate and if applicable the amount of inheritance tax payable on your death.

You can gift to beneficiaries their inheritance now and see them enjoy it.

You do not have to make monthly payments.
Your income doesn't always need to be assessed meaning if you have a low income, you are still likely to meet the criteria, unlike a traditional residential mortgage.

You can live the lifestyle you want, while your health allows; go on those holidays, do the home improvements or buy the dream car/motorhome.

Alternatives to taking out an Equity Release Mortgage

If the funds you wish to release are to assist with living costs/ life's luxuries you could consider a budgeting exercise and coming up with a plan to save by making necessary cutbacks.

If the reason you are considering equity release is to make adaptations to your home for health and mobility reasons there may be grants/equipment available from another source.

If you are considering equity release to repay an existing mortgage, could you restructure the term on this instead? Or consider a Retirement Interest Only Mortgage (RIO). This is a process more commonly known as remortgaging.

Would another form of borrowing (i.e. a personal loan) be sufficient?

Or can you not afford repayments?

Could you take in a lodger for extra income?

Consider downsizing to a less expensive property.

Could you borrow the money from a family member or friend?

Do you have alternative savings or investments you could use?

Have you checked if you are eligible for any state benefits/ grants?

Common Questions

If I take out equity release, can I move home?

The short answer is, yes you can. But you need to speak to your adviser and lender to see if the new property would meet their criteria or you can downsize and repay the equity release. Charges may apply.

Can the debt increase above the value of my property?

If you take out an equity release mortgage with a lender affiliated with the Equity Release Council, these products contain a no negative equity guarantee. This is designed to ensure you never pass on debt to your beneficiaries. Anything exceeding the property value is written off in this instance.

Who are the Equity Release Council?

The Equity Release Council represents the equity release sector and exists to promote high standards of conduct and practice in the provision of and advice on equity release which have consumer safeguards at its heart.

These standards and safeguards have allowed the sector to grow, giving financial advisers and their customers confidence in the products, dispelling myths about equity release, and educating the public about the potential to access the wealth in their home for a variety of uses.

The reputation and standing of the brand and the trust developed has seen its membership grow, bringing the sector together and helping it strengthen its voice: providers of equity release plans, solicitors, intermediaries, financial advisers, consultants, surveyors and other industry professionals – all committed to the principles of membership. The Council builds on this unified voice of its members, while remaining independent from the specific views of individual member firms or particular segments of the equity release market.

Source: https://www.equityreleasecouncil.com/about/#who-we-are

Common Questions

The Equity Release Council set standards for product providers and these providers are only allowed to state that a product meets the standards if it meets all of them and not just a few.

The Equity Release standards are as follows:

- For lifetime mortgages the rate must be fixed for each release or, if variable, the rate must be capped for the life of the loan.
- You must have the right to remain in your property for life or until you need to move into long-term care, provided the property remains your main residence and you abide by the terms and conditions of your contract.
- You have the right to move to another property subject to the new property being acceptable to your product provider as continuing security for your equity release loan.
- The product must have a "no negative equity guarantee". This means that when your property is sold, and agents' and solicitors' fees have been paid, even if the amount left is not enough to repay the outstanding loan to your provider, neither you nor your estate will be liable to pay any more.
- All customers taking out new plans which meet the Council's standards must have the right to make penalty-free payments, subject to lending criteria.

Hawsons Chartered Accountants
Independent Financial Advisers

Common Questions

Who are the Financial Conduct Authority?

The Financial Conduct Authority is the UK's financial services industry regulator. Its role includes protecting consumers, keeping the industry stable, and promoting healthy competition between financial service providers. FCA works with HM Treasury. Equity Release is regulated by the FCA.

Do I need to seek advice to take out an Equity Release Mortgage?

Because equity release is a complex product you must understand what you could be entering in to as stated in the terms and conditions. Taking out an equity release mortgage can have an effect on the value of your estate left to beneficiaries and state benefit entitlements. Seeking advice from a suitably qualified adviser to take a mortgage out of this nature is strongly recommended. The role of a suitably qualified adviser is to ensure you do understand the product you are entering into as well as fund the right provider and product for your individual circumstances.

How do I know if my adviser is suitability qualified?

The adviser should have the necessary qualifications in Mortgage Advice as well as Regulated Equity Release. Don't be afraid to ask for proof! You can look up regulated individuals and companies on the Financial Conduct Authority register by using this link: https://register.fca.org.uk/s/

Should I involve others?

Ultimately that is your choice. If it makes you feel more comfortable it never hurts to have a trusted friend or relative present at important meetings. This is advisable at all times not just if you are considering equity release.

If you have children or dependents, how will they feel about it?

It is advisable to discuss with them. In some circumstances people are taking equity release to gift to children (early inheritance) so involving them is seen as the right thing to do.

Will it affect your ability to move house?

Most providers let you transfer a plan if you move, but they might not if you are moving to an age-restricted or leasehold retirement housing complex.

Get in touch

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How can we help?

At Hawsons Wealth Management we pride ourselves on a personal service from an Independent Financial adviser holding additional specialist qualifications in Equity Release. Our advisers will advise you through the whole process of equity release. We will ensure that equity release is the right option for your individual circumstances and we will advise you to consider other financing options of we believe it is more suitable. Once you are 100% sure equity release is the right option for you we will advise you through the whole process.

Being independent means that we not limited to the lenders we can recommend. We can provide advice on the whole of the market, meaning you will receive the best available product for your requirements.