

EQUITY RELEASE – UNLOCKING THE VALUE OF YOUR HOME

Life expectancy in the United Kingdom has increased by 26% for men and 14% for women in the last 20 years. The upshot is that equity release is a real opportunity for retirement age home owners who are “asset rich” but “cash poor” or those who are reliant on ever shrinking pension pots or poorly performing share holdings.

Equity release unlocks capital in the home and turns it into cash without the need to move.

However, equity release needs to be considered very carefully as there are a variety of different types of schemes available and they may not be suitable for all.

The following is an explanation of the main types of scheme:-

1. LIFETIME MORTGAGES

This scheme provides you with a tax free cash lump sum or a regular income with no monthly repayments secured by a charge against your property. Interest is added to the loan during your lifetime and the loan and interest is repaid when the property is sold (when you move out or pass away). You retain full home ownership but the amount you leave as an inheritance will be reduced and the interest can accrue quickly because it is compounded.

2. DRAW DOWN PLANS

This scheme is similar to the above albeit that the full amount of money is not requested at the outset; instead, cash is “drawn down” in stages. This means that interest may accrue more slowly (depending upon the amount you draw down) although the interest rate may be higher.

3. HOME REVERSION PLAN

This scheme involves selling part or all of your home to a reversion plan company in exchange for a tax free cash lump sum and a guaranteed life time lease with no monthly repayments. Whilst you do not retain full ownership of our home, you are able to stay there rent free and providing you have exchanged less than 100% you will share in any increase in the property value. You are able to guarantee the

inheritance that you will be leaving. However, you do not always receive the full market value for the property and you cannot “reverse” this scheme.

4. HOME INCOME PLANS

This scheme involves investing equity released by either a life time mortgage or a home reversion plan into an annuity to generate an income for life.

You should seek independent financial advice to ensure that you choose the right plan for your requirements and circumstances. Furthermore, you should ensure that the scheme you select is regulated by SHIP (Safe Home Income Plans), an independent organisation founded in 1991 to protect equity release clients. SHIP ensures that all providers that belong adhere to a code of practice which includes:-

- Providing a fair, simple and complete presentation of plans
- Ensuring the clients' legal work is done by his or her solicitor of choice
- Stating clearly the main cost to the householders' assets and estate
- Carrying a no “negative equity” guarantee so that you will never owe more than your home is worth.

If you require any further information, please contact SHIP on 0870241020 or www.ship-limited.org.

An equity release scheme may well be appropriate but it should be considered a last as opposed to a first resort.

The following factors should be considered:-

1. Precisely how much money is required at present and for what purpose?
2. Is there another way of raising the money, for example, to move to a smaller house?
3. Who will inherit the debt? It may be that it is considerably cheaper for a home owner's child to raise a mortgage on their own property than for the home owner to raise an equity release mortgage.
4. How will state benefits be affected?
5. How will tax liabilities be affected?
6. Is there a need to revise the will?

You will need specialist legal advice when considering such a scheme and we can assist you in that regard. Our specialist equity release team can advise you fully and fairly to ensure that any scheme you enter into is the most suitable scheme for you.