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managing your wealth

# EQUITY RELEASE FACTSHEET

It may be appropriate to start with a simple definition. 'Equity release' is a general term used to describe products which allow you to borrow money secured against your home or to sell all – or part – of your home without having to move. You are releasing the equity (cash) tied up in the value of your home.

**The Advantages**

The main advantage of equity release is simple – it gives you extra money. What people do with the money is entirely up to them, but typically we see clients:

• Using the cash from equity release to boost their income in retirement. It's a simple fact that most of us have not saved enough for our retirements and equity release can help to bridge the gap between what's coming in and what you need to live comfortably;

• Carrying out home improvements, particularly to make the home easier to live in as they get older;

• Giving it to their children, either so they can see their children and grandchildren enjoying and benefitting from the money – or for a more practical purpose, such as putting their children on the property ladder;

The 'dream family holiday' is also a popular option!

• Paying off debt. This is an area where the sums have to be done carefully, but if someone has 'high interest' debt – such as credit cards – it can make sense to use equity release to pay off that debt.

What are the other advantages of equity release?

For many people, taking out a loan against their property can mean that the value of their estate is reduced and that there is consequently less inheritance tax to be paid on death. As we've said many times, inheritance tax is an area which requires specialist advice, but equity release can be a useful tool in making sure that the tax on your estate is kept to a minimum.

The no negative equity guarantee (NNEG), which virtually all equity release products now have, means that borrower(s) cannot find themselves with negative equity in the event the property market falls – something which was previously a real worry to many older people.

**The Disadvantages**

So much for the pros: what about the cons?

First and foremost, equity release reduces the equity in your property – hence there is less money for your potential beneficiaries. This can lead to friction in families and we'd always recommend that if you are contemplating equity release you discuss the steps you're taking with your potential beneficiaries. No one wants to fall out with their children.

Similarly if it is your intention to leave money to charity, equity release will also reduce the money available for that purpose.

Increasing your income through equity release may impact on any means-tested benefits you might be receiving. As your income goes up, so your entitlement to some benefits may go down. Again, this needs looking at carefully before any equity release arrangement is entered into.

Finally, equity release has costs associated with it and these costs can be expensive. Your home will need to be valued, and you'll need to pay for the advice that you receive from your professional advisers.

That is a brief look at the advantages and disadvantages of equity release. We haven't had space in this article to look at how much money you can typically release, or at the various equity release products. As we said above, equity release can be a very useful financial planning tool – but it does require specialist advice.

If you have any questions on it, or would like a preliminary chat to look at the options, then please don't hesitate to contact us. As always, we are only a phone call or an email away.

**FREQUENTLY ASKED QUESTIONS**

**Q. There are lots of different types of equity release schemes. How can I compare them?**
A. There are only two main types of schemes: lifetime mortgages and home reversions. The most popular is a lifetime mortgage, which is like an ordinary mortgage except that you don't have to make repayments every month. Instead the loan and interest is deducted in one go when you die or sell your home.

**Q. How much can I borrow?**
A. You can borrow between 20 and 50 per cent of the value of your home with a lifetime mortgage dependent upon age. With a home reversion you actually sell your home or a part of it to a specialist company, which then allows you to live there until you die or go into care. You can generally sell up to 100 per cent of your home and people aged 75 or older can raise more cash, as their life

expectancy is shorter. However, there are reversion plans around available to people aged as young as 50.

**Q. How do I decide which particular scheme to go for?**
A. You should seek expert advice from an independent financial adviser who specialises in equity release, and who is registered with the Equity Release Council. They will be able to take a look at your individual circumstances and explain what the best options are for you, which may involve looking at other ways of raising cash, such as downsizing your property, borrowing money from family, or even applying for a standard mortgage depending on your age and income.

*NB. Don't be tempted to make a decision on your own. Many people have regretted taking out an equity release plan because they can be very inflexible, which can cause problems if your circumstances change.*

**Q. Will my family get any money when I die?**
A. This depends greatly on many factors including the type of scheme taken out. With a home reversion scheme your family can be guaranteed some benefit from the property on your death. They will receive the sale proceeds relating to the portion of the property which you still own. This also includes any appreciation on the property value on the portion still owned. With a lifetime mortgage the portion left is more difficult to predict as it will depend on how long the loan has been outstanding and the interest accrued, in addition to any movement in property prices. However, there are providers who allow you to protect a proportion of the equity if required. All products from SHIP providers carry a no negative equity guarantee.

**Q. How much do equity release schemes cost and how and when do you pay for them?**
A. It depends entirely on the type of equity release plan and the company that is offering it. Typically an application fee may be required, and prices for this vary. The initial fee usually covers the cost of valuing your property as well as any associated administration costs.
Under FCA regulation, companies must make it clear that they charge such a fee and detail exactly how much will be charged. There may also be some legal costs involved.

**Q. How can I make sure I am protected?**
A. Lifetime mortgages have been regulated by the Financial Conduct Authority (FCA) since 2004 and home reversions since April 2007. It means any company selling the plans has to conform to certain rules and regulations and, if anything goes wrong, you may be able to claim compensation. Buying through a SHIP-registered firm gives added protection as they have to conform to certain professional standards.

Also, make sure you work with independent financial adviser who has relevant equity release qualifications, such as the CII Certificate in equity release.

Remember, taking out an equity release scheme is not simply raising some cash now, but making a financial decision that will affect you for the rest of your life, which could mean many decades ahead.

Make sure you know exactly what you're getting into - take as much advice as you need, and don't be rushed into making a decision.

Sources: saga.co.uk