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Equity Release Guide

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Equity Release Guide

Unlocking the value of a property is increasingly popular with over 55s. Often your home is by far the largest asset you own, and Equity Release can help you take advantage of it.

Many people are using their home to supplement pension income during retirement. For every £1 of pension savings withdrawn in 2018, 50p of housing wealth was unlocked with Equity Release; a 25% increase on the year before. In fact, in 2018, 47,081 people took out an Equity Release product, utilising £3.6 billion of property equity[1].

Recently the number of products available has increased dramatically, with options more than doubling from 58 in 2016 to 139 in August 2018[2]. But, with so many options now available, how do you know which might be right for you? Let's get down to basics and start with the two types of Equity Release available:

1. **Lifetime Mortgage;** where you take out a mortgage on your property but retain ownership of your home. The loan amount and any accrued interest are paid back when you die, or you move into long-term care.

Whilst they do accrue interest, you can choose to make repayments if the policy permits, paying off either all or a portion of the interest. Alternatively, you can let the interest roll-up to be added to your original loan amount. A Lifetime Mortgage is the most common and popular type of Equity Release product.

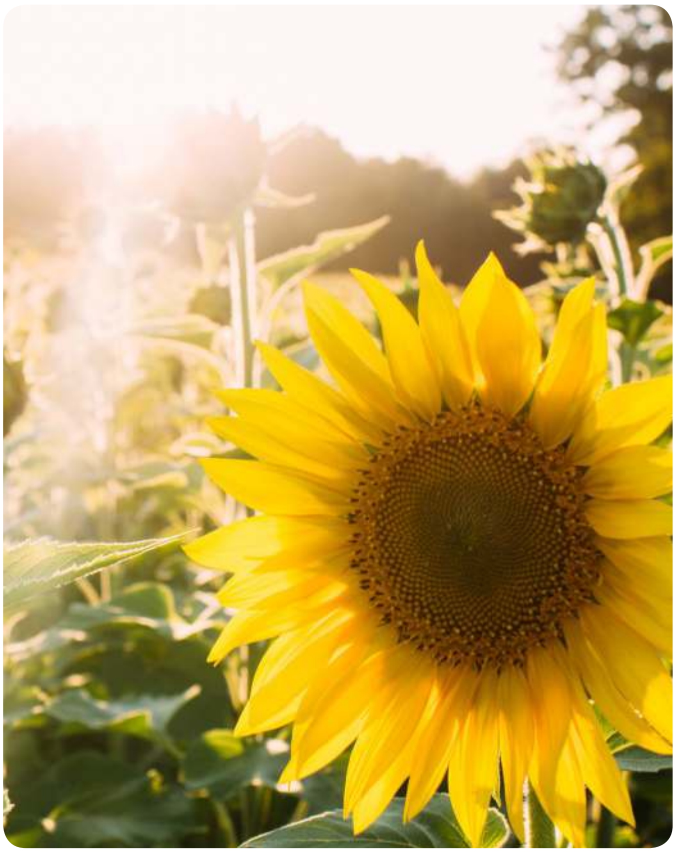
Unlocking cash from your home will reduce the value of your estate and could affect your entitlement to state benefits – such as pension credit, savings credit or even council tax benefit. While you can choose not to make repayments in your lifetime, interest will build up on your equity release mortgage loan over the years.

Typically, there are two types of Lifetime Mortgage:

- **Lump sum;** which as the name suggests, provides you with a tax-free lump sum to spend as you please. You don't have to make repayments, but that does mean interest is always charged on the full balance owed.
- **Drawdown;** which gives you more flexibility, letting you draw money in stages as and when you want it up to an agreed limit. Again, money is tax-free and you don't have to make repayments. A Drawdown Lifetime Mortgage can be used to supplement retirement income if you don't need a lump sum.

2. **Home Reversion;** less popular than a Lifetime Mortgage, you actually sell part or all of your home, rather than borrow against it. You maintain the right to live in the property, typically rent free, until you die. But, you also agree to keep it well maintained and insured.

The percentage of property you own remains the same over time, regardless of its value increasing or decreasing. At the end of the term, the property is sold and the money from the sale will be shared according to ownership.



Who's using Equity Release?

As house prices have risen over time, especially in and around Bristol, a high proportion of wealth is tied up in your home. That money could provide a much-welcomed boost to your retirement income, or even help you retire earlier than expected.

You wouldn't be alone in choosing this option either; every day homeowners are using Equity Release to access the equivalent of £11 million[3] from their homes. The average amount withdrawn as a lump sum is £91,398. In contrast, the initial instalment from a drawdown Lifetime Mortgage, which lets you take additional instalments, stands at £65,343.

You can take out an Equity Release from age 55, assuming you own your property outright, but the average age is currently 72.[1] Not that there's a right time to do so; your circumstances are entirely personal to you.

What's it being spent on?

If you're interested, you probably have an idea what you'd spend the additional cash on. But, clearly defining how it would be used is important in deciding if it's an appropriate decision.

It's important to consider the sustainability of using Equity Release, especially if it's to supplement your retirement income in the long term. Will it last your lifetime? If you risk falling short in the future, it may be wise to look at other options. Alternatively, if it'll be used for one-off purchases, such as renovating your home or travelling, Equity Release can be a useful tool.

Popular uses of Equity Release during 2018 include:[1]

- Home and/or garden improvements 64%
- Going on holiday 33%
- Repaying loan and credit card debt 31%
- Gifting to family or friends 27%
- Clearing an outstanding mortgage 22%
- Help with regular bills 12%

Gifting to family, especially children, to help them purchase their first home, is on the increase. The number of homes in England bought with a gift or loan from family or friends reaches a new high of 1.1 million.[2] The increased flexibility in new Equity Release products and greater competition has meant it's now a very real solution to help the next generation get on the property ladder.

But, what's the cost?

Like a normal mortgage, products either offer a fixed rate, where the interest rate won't change for a defined term, or variable rate, where it can. Many people using Equity Release allow the interest to roll-up, meaning the amount owed can increase particularly quickly in the long term. This will, naturally, affect the equity you have in your home.

However, the increase in competition in the past two years has seen the cost of Equity Release driven down. In July 2018, the average interest rate was 5.22%, down from 5.27% the previous year and from 5.96% in 2016.[1] Comparing average rates by actual customer, rather than by product, shows that the average person paid less than 5% across drawdown and lump sum style plans.

If you choose to take out an Equity Release product, it could mean interest mounts up for a number of decades. The table below gives an example of how interest increases if you borrowed £45,000 over 25-years:

Number of years since you took out a Lifetime Mortgage	The amount owed for different rates of interest	
	4%	6%
5	£54,749	£60,220
10	£66,610	£80,588
15	£81,042	£107,854
20	£98,600	£144,321
25	£119,962	£193,134

Things to think about

There are some important considerations before taking out an Equity Release.

- **Wanting to move house**

How likely is it you'll want to move home in the future? You might want to down-size. Some Equity Release products allow you to port your agreement to a new property, but many don't, and those that do are likely to impose restrictions. Effectively, this could make it very difficult to move in the future.

Even if you're happy to stay in your current property for the remainder of your life, you should think about future maintenance, improvements or any modifications that might be necessary. Over the next few decades, it's likely that you'll want a new kitchen, bathroom or to improve accessibility to your home. Undertaking a few repair and renovation projects will require a capital budget to do so.

Taking the time to consider these areas means you can budget accordingly and, should you decide you may want to move, ensure you choose the right product.

- **Leaving an inheritance**

If leaving a legacy for your loved ones is important, this is a key consideration. It's likely that your home is one of the largest assets you own. It will, therefore, often make up a significant amount of the inheritance you leave. Unlocking the wealth that's in your home will affect your legacy.

It is possible to ring-fence a portion of your home's value when taking out an Equity Release product. This means that it can't be accessed by your lender, even if the value of the loan and interest exceeds the remaining value. However, going down this route is likely to mean the maximum amount of equity you can utilise is lower.

- **The possibility of negative equity**

Historically house prices have risen. However, there are inevitable instances where house prices drop, like after the financial crisis of 2008. It's worth noting at this point that the events of the past are in no way a guarantee of the future, nobody has a functional crystal ball!

When considering mounting interest, in some circumstances, it is possible that the value of your Equity Release loan might become greater than the value of your property. This would leave your estate with negative equity. Many products now come with a no negative equity guarantee, which means your estate won't be liable for the difference in this circumstance. However, you should carefully check what each product covers before you choose to proceed.

Many thanks indeed to the team at Sovereign. They have consistently given us excellent service and quality advice. They have always been flexible and have tailored their service to our changing needs.

What are the alternatives?

If you need access to additional capital it can feel as though your options are limited. But, it's always worth thinking about the alternatives which might, in the end, be more suitable for you.

The first step here is to assess your other sources of retirement income and assets. You may find that through restructuring your assets you can access the capital that you need to move ahead with your plans, without needing to give up equity in your home.

Other options to also consider include, but are not limited to:

- Asking friends and family for support
- Using affordable credit for short-term spending
- A traditional mortgage
- Downsizing
- Seeking other sources of income

Carefully weigh up the pros and cons of each before moving forward. What is the right decision for someone else isn't necessarily right for you.

"You have been an absolute star, and explained all so well. Made us both feel comfotable too."

Advice is key

It can be a daunting prospect making such a big decision. Seeking advice can help make sense of your situation and decipher if Equity Release is right for you. We will give you clear, realistic advice about what will best suit your circumstances, highlighting the risks and costs involved.

If together we do decide Equity Release is the best option, we can help you establish which type of product is best, and whether it should take the form of a lump sum or regular income instalments. If equity release is not the best option, we will help you find alternative solutions.

We are also members of the Equity Release Council (ERC), a voluntary body which aims to ensure that its members are highly professional and act with integrity and transparency in offering high-quality products and services to customers. This means we adhere to a strict Statement of Principles and detailed, ethical rules and guidance.

Working with the Chartered Financial Planners at Sovereign will give you the confidence to make an informed decision as you explore the possibility of Equity Release. With our help, you can rest assured you're making the most of your capital during retirement and remain on track to achieving your most essential aspirations.

1. **https://www.keypartnerships.co.uk/MediaLibrary/Key-Partnerships/Documents/2018-Full-Year-Market-Monitor.pdf**

2 **https://www.equityreleasecouncil.com/news/equity-release-council-publishes-equity-release-market-report/**

3 **https://www.equityreleasecouncil.com/document-library/q3-lending-figures-press-release/1181019-equity-release-council-q3-2018-lending-figures-news-release-final.pdf**

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