

## What is equity release?

The equity (value) you have in your home is the open market value less any mortgage or other debt held against it. Equity Release is the term used for **a way of getting cash from the value of your home** without having to move out of it.

Equity release schemes are usually only available if you (and your spouse or partner) **are at least aged 55 or over**, although it is usually people in their 70s who will benefit most. Normally you should be a home owner.

Under certain circumstances it is possible to purchase property and arrange a scheme at the same time.

### Example

Mrs Brown is 68 and a widow. She currently lives in Kent and wants to move to West Sussex to be near her married daughter. At the same time she wants to move from her three bed semi detached house to a one bedroom detached bungalow in a quiet village location. The difference in price of the two properties is £60,000 and Mrs Brown thinks it will cost £15,000 to pay the moving expenses, legal fees etc.

Although Mrs Brown no longer has a salary, she is able to obtain an equity release of £75,000 on the new bungalow to cover all the costs of the move.

**Equity release schemes are complex** and you should always consider taking professional advice before making any commitment.

## Background to equity release

Equity release first started in 1965 with very few products available. In 1972 **the first Home Income Plan** was introduced to give borrowers an income from the equity in their homes rather than a lump sum.

By 1988 a new style of plan was introduced **which is now not permitted**. Again they were called home income plans but part of the income received was used to pay the interest on the loan on the property. When interest rates started to rise the income was not sufficient to pay for the loan and so **the loan increased until it exceeded the value of the home**.

This was when **the trade association, SHIP** (which stands for Safe Home Income Plans), was set up. The main purpose of SHIP is to prevent borrowers from taking out schemes which will result in their losing their homes, or leaving debts for their children.

A feature of our equity release service to clients is that we will **only recommend schemes from members of SHIP**.

“There are a number of schemes which enable you to tap into the value of your home without having to sell it and move out.

Over the past forty years, thousands of retired homeowners have found that these plans provide a safe and successful method of releasing regular income or a cash lump sum, to improve the quality of their life in retirement.”

Safe Home Income Plans (SHIP)

Norwich Union was the first lender to develop a **‘roll up’ equity release scheme**. Since then there has been an increase in the number of providers and a greater variety in the types of schemes available.

Equity release schemes were first regulated by the Financial Services Authority (FSA) in 2004 and the FSA introduced the generic title of ‘Lifetime Mortgages’ to describe this type of mortgage product. The FSA regulated Home Reversion schemes (**ie where the home is actually sold rather than a mortgage provided**) in 2007.

“Too many elderly homeowners find themselves in the unenviable position of having to watch every penny they spend from day to day, while most of their money remains locked up in their single biggest asset - their home.

Home income plans and equity release plans can resolve the problem safely.”

Safe Home Income Plans (SHIP)

All these developments have increased confidence in these products.

Combined with the **increase in house prices over the years** and the **rise in the cost of living**, leaving pensioners with a shortfall in income, equity release schemes have increased greatly in popularity.

## What types of arrangements are available?

As we have seen, there are now two main types of equity release schemes – lifetime mortgages and home reversion schemes.

With a **lifetime mortgage** you

- take out a mortgage secured on your home
- continue to live in your home
- repay the mortgage from the proceeds of the sale of your home when you die or move into a residential care home

With a **home reversion scheme** you

- sell all or part of your home to a reversion company or an individual
- no longer own all or some of your home but continue to live there as a tenant of the reversion company or individual. The home is sold when you die or move into a residential care home. If you still own part of the home the value of that part is yours, or is part of your estate, when you die.

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## How do you get your money?

You can either **take a lump sum** to cover your immediate needs (debt consolidation, home improvements, or some other project) or you can **have an income**.

If you need an income you can either:

- have a **regular amount monthly** or at other specified intervals, or
- take money when you need it **on a drawdown basis**.

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## Different types of lifetime mortgage

- **Roll-up Mortgage.** As the name implies, this is very similar to a mortgage used to buy a home, but you would pay no interest. **The interest is rolled up and added to the loan.** This means that over the years the loan grows quite quickly in size eroding the value of the property which can be left to your children or other heirs.
- **Interest Only mortgage.** This is similar to an interest only mortgage used to buy a home. You would pay the interest each month out of your income.
- **Fixed repayment mortgage.** Instead of being charged interest on the loan, you agree that when your home is sold you will pay the lender a higher sum than you borrowed.
- **Home income plan.** The lump sum raised is used to purchase you an annuity which gives you a regular income, usually fixed for life.

- **Shared appreciation mortgage (SAM).** Some lifetime mortgages include a 'shared appreciation' element. This means that you agree with the lender that they can have a **share in any increase in the value of your home** when it is sold, in return for them charging you less, or no interest on the loan.

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## Home reversions

A reversion company buys, or arranges for someone else to buy, part or all, of your home. You receive the sale price as a cash lump sum, or an income, or both.

It is important to note that you will be paid less than the full market value of your home because the buyer will not be able to sell the property until you die or move into care, which might be for quite a few years.

### Questions You Should Ask

1. What happens if I decide to move?
2. Will I ever owe more than the property is worth? (if you use a SHIP provider the answer is 'no')
3. Is there a risk of losing my home? (Not with a SHIP provider)
4. What happens if I decide that I want to get out of the scheme in the future?
5. What happens if I decide to change schemes or provider?
6. What happens if I die soon after taking out a scheme?
7. What happens if my spouse or partner dies?
8. What happens if I need to go into care?
9. What happens if my circumstances change?

And you may have other questions.

This is why we suggest you should always take advice from a qualified adviser.

## Early Repayment Charges

If you repay a lifetime mortgage before the end of the contract (ie before you die or go into care) you may have to pay an early repayment charge. We will inform you of the amount as part of our advice process.

## Rental

With a home reversion scheme you may have to pay rent, but often this is only a token amount.

## When considering an equity release scheme

This guide is just a brief description of the many types of scheme available and new ones and new features are being added all the time.

The first point to consider is **whether the provider belongs to SHIP**. This means that the provider adheres to various rules which **help to protect you from nasty shocks later on**. It is very important to look very carefully at all the terms and conditions of the scheme so that you know what the scheme offers and **what you will give up** as a consequence of taking on the scheme.

### Typical Costs

- **Valuation fee:** linked to the value of the property, but probably **around £400**
- **Legal Costs: £600-£800** but it is always wise to get an estimate of these
- **Buildings insurance:** you will no doubt have a buildings policy in force and this can usually continue. Some home reversion scheme providers may specify a particular policy. In any event, the annual premiums will depend on the size of the property and location: **about £300-£400 pa**
- **Adviser Fee:** Arch Financial Planning Limited charges a **fee of £1,350** for advising on and arranging an equity release scheme. However, this will be reduced by any fee paid to us by the scheme provider. It is particularly important to note that we only charge a fee once completion takes place. Often this fee can be settled by your solicitor as part of the transaction.

## What happens next?

You can take out an equity release scheme without seeking financial advice, but if you do, **you will have to rely on your own judgement**.

There are many schemes available with different features and an adviser will be able to recommend a scheme which provides the features and benefits best suited to your circumstances. A good adviser knows which questions to ask.

## Our advice process

At Arch Financial Planning Limited we start by making sure that we understand your present financial circumstances; why you are considering equity release and what your future plans are. This involves obtaining an in depth knowledge of your income and outgoings, asset and liabilities and your tax position.

We also consider your state of health as this will have an effect on the length of the scheme and some providers take this into account when deciding how much might be available.

We are particularly keen to look at your future plans as this will have a **bearing on what sort of features you will require** in your scheme.

We will seek to answer all your questions and show you sample schemes so that you understand, as far as possible, what taking an equity release scheme will mean for you.

We check your tax position and encourage you to investigate your entitlement to benefits and any improvement grants that may be available. Although not obligatory, **we also encourage you to discuss this step with your family**, especially those who might reasonably expect to inherit your estate.

We suggest you **speak to your family solicitor** to see if he or she is able to undertake the legal side of the scheme. If not, we can refer you to an experienced firm. There is a requirement of all schemes that you should have a **face-to-face meeting with a solicitor** before completing the scheme to ensure that you fully understand the arrangement.

This is one of many safeguards now part of this process which is in place to protect those who might be vulnerable.

When we have researched the whole of the market for a suitable scheme, a final personal illustration will be given to you. The scheme will be fully explained and your questions answered. When you are happy to proceed, an application is completed and submitted to the provider with any fees required. Identity documents will be required by this stage at the latest.

Once the provider has completed the initial processing, **a surveyor will call** to make an appointment to complete the survey. The report will be submitted to the provider. After any additional information has been supplied, if required, an offer will be normally be issued to you and your solicitor.

Then you can arrange to see the solicitor to complete the legal formalities. Further legal work will be undertaken and eventually completion will take place and the funds will be transferred to your bank account.

This process can all take quite a while and is **often two months or so** from application to completion.

### SHIP Code of Practice

- The members of SHIP agree to provide fair, simple and complete presentation of their plans. The benefits, obligations, variables and limitations must be clearly set out in their literature, including all costs which the applicant has to bear in setting up the scheme, the position on moving, the tax situation and the effect of changes in house values.
- The client's legal work will always be performed by the solicitor of his or her choice. In all cases, prior to the completion of the plan the solicitor will be provided with full details of the benefits the client will receive. The solicitor will be required to sign a certificate to the effect that the scheme has been explained to the client.
- The SHIP certificate will clearly state the main cost to the householder's assets and estate e.g. how the loan amount will change or whether part or all of the property is being sold.
- All SHIP plans carry a "no negative equity" guarantee i.e. you will never owe more than the value of your home.

### Some Common Terminology

**Annuity:** an investment that converts a lump sum into income that is taxed.

**Arrangement fee:** a commitment or administration fee that you usually pay the lender to reserve the mortgage funds.

**Equity Release:** a way you can benefit from the value of your home without having to move out – by borrowing against it or selling all or part of it for a regular income or a lump sum.

**Home income plan:** a loan that pays you a cash lump sum with which you buy an annuity to give you a monthly income, usually fixed for life. Part of the income is used to pay the interest on the loan.

**Home reversion:** a type of equity release scheme – you sell all or part of your home to a scheme provider in return for regular income or a cash lump sum or both, and continue to live in your home for as long as you wish.

**Lifetime mortgage:** a type of equity release scheme – a loan secured on your home which is repaid by selling our home when you die or go into long-term care.

**Mortgage:** a loan secured on property.

**Negative equity:** when the amount you owe the lender is more than the value of your home.

**Roll-up mortgage:** a loan to which the interest is added each month or year.

**Secured:** if you do not repay your loan, the lender can sell your home to get its money back.

**Shared appreciation mortgage:** instead of getting some or all of the interest on the loan, the lender takes a share in any increase in the value of your home when it is sold.

### Further Information

**Financial Services Authority (FSA):**  
Consumer Helpline: 0845 606 1234  
[www.moneymadeclear.fsa.gov.uk](http://www.moneymadeclear.fsa.gov.uk)

**Age Concern:**  
Telephone: 0800 009966  
[www.ageconcern.org.uk](http://www.ageconcern.org.uk)

**Help the Aged:**  
Telephone: 020 7278 1114  
[www.helptheaged.org.uk](http://www.helptheaged.org.uk)

**Home Improvement Agencies (HIA):**  
For help arranging home improvements and advice on financial help available.  
To find your local HIA in England, Telephone: 01457 891 909  
[www.foundations.uk.com](http://www.foundations.uk.com)

**Safe Home Income Plans (SHIP):**  
Telephone: 0870 241 606,  
[www.ship-ltd.org](http://www.ship-ltd.org)

**Entitledto:**  
An information service that provides free web-based calculators to help you work out your entitlement to benefits and tax credits. [www.entitledto.co.uk](http://www.entitledto.co.uk)

## Risk factors

### ➤ If you decide to move

Most **lifetime mortgages** can be transferred if the new property is acceptable to the lender. If you are moving to a lower-value property, you will usually have to repay part of a lifetime mortgage. If you cannot transfer the scheme, you will have to repay the whole mortgage from the proceeds of selling your property. Think carefully about the effect of the roll-up of interest or the shared appreciation feature of the loan. The amount you have to pay back could be quite high and you may have less than you expected to buy a new property with. If you repay the loan early, you may also face early repayment charges. You should check with the lender for any restrictions on moving.

Some **home reversion plans** can be transferred if the new property is acceptable to the provider. If the scheme can't be transferred, you will have to pay off the whole amount from the proceeds of selling the property. You may then have too little money left to buy a new property.

### ➤ If you decide to cancel

You can pay off a **lifetime mortgage** at any time but there is likely to be a charge and this may be large. Find out from your lender what you have to pay.

In very limited circumstances a **home reversion** can be cancelled, but this could be very expensive.

### ➤ If you decide to switch deals

As with standard mortgages, you may be able to switch your **lifetime mortgage** to take advantage of falling interest rates and a better deal. However, to do this you may have to pay an early repayment charge and this may cancel out any benefit you may get from switching.

### ➤ If you die soon after taking out a scheme

Most lenders of **lifetime mortgages** would charge interest until your property was sold and the mortgage was repaid in full. With a fixed repayment mortgage, the higher fixed sum to be paid to the lender becomes due when you die. This could be quite an expensive deal, but in some agreements the lender may reduce the amount if you die in the first few years. If you want to take up this option, the maximum you can borrow will be less.

The **home reversion** company would take the percentage that was due from the sale proceeds of the property, so - depending how much you originally received - it could be quite an expensive deal.

Schemes that provide income may involve buying an annuity. The total income paid out will depend on how long you live, so if you don't live long, the scheme will be poor value. Some schemes do offer 'capital protection', so your beneficiaries get back a lump sum if you die within a few years of taking out the scheme. You pay for this option by taking less income.

References to married couples should also be taken to include those in registered civil partnerships.

Please note that this information does not constitute personal advice and should not be treated as a substitute for specific advice based on your circumstances. If you are in any doubt as to whether equity release would be suitable for you, then you should discuss the matter with a suitably qualified independent financial adviser such as ourselves.

Any information given in this Guide relating to income tax legislation is based on our understanding of legislation and practice in force at the date of this Guide. Whilst we believe our interpretation of current law and practice to be correct in these areas, we cannot be responsible for the effects of any future legislation or any change in interpretation or treatment.

### For personal advice

If you would like to discuss whether an equity release scheme would be suitable for you please ask your usual Arch adviser or contact us via one of the following:

Tel: **0845 3700 661**  
or **01483 204600** (if local)  
Email: **enquiries@arch-fp.co.uk**  
Online: **www.arch-fp.co.uk**



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