

Retirement **FREEDOM**

Information about **Releasing Equity** in your **Property** Winter 2018/19

Over £1bn!
Equity Release
lending in Q3 2018
hits £1.02bn,
up 24% on Q3 2017
(Source: Equity Release Council)

DISPELLING MYTHS

Did you know that you can't see the Great Wall of China from space, Napoleon wasn't short and Vikings never had horns attached to their helmets?

These are just a few of the many myths that have evolved over time. Similarly, if you opt for an **Equity Release plan** there isn't the possibility that this may result in you losing your home (if it remains your main residence), nor will it leave any debt to your children. This is the case if you opt for a lender that's a member of the Equity Release Council (the industry body), which covers the vast majority of all new loans. The Council has a number of rules in place, such as the ones above to reassure borrowers that they're protected (see page 3 for more on this).

What is Equity Release?

If you are not too familiar with this product, it's simply another form of borrowing for the 55+ homeowners, that enables them to stay in their home. It's also increasingly viewed as another element of the retirement planning process.

With equity release, **some of the value in your home is released in order to raise funds.** You can then use that money for whatever reason you like, such as:

- help to clear an outstanding mortgage.
- enable much-needed home improvements.
- settle debts.
- assist with regular bills.

- gift money to family and friends.
 - or, perhaps, simply use it to treat yourself.
- In short, with the average 65 year-old UK adult having around 20 years of retirement ahead of them, the extra funds will hopefully assist the journey through this period.

How it works

With the most popular product - a **Lifetime Mortgage** - you can raise funds (up to agreed limits), and not even have to pay off any capital or interest at any point during your lifetime, if that's the route which best suits you.

The provider of the loan would reclaim the capital (and any accumulated interest) through the sale of the property, once the final planholder dies or moves into long-term care.

Increasing popularity

Of course, it may not be the best route for everyone, and other options do exist (such as downsizing), but equity release has become increasingly popular as the post-it note on this page shows. However, this shouldn't be a surprise, as the old world view that retirement income will be largely based on pensions possibly doesn't hold true anymore.

You may also be surprised to hear how big

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■ T B Mortgage Services is authorised and regulated by the Financial Conduct Authority.

■ These are Lifetime Mortgages and Home Reversion Plans. To understand the features and risks, ask for a personalised illustration.

■ Lifetime Mortgages and Home Reversion Plans are the two main types of Equity Release.

■ An Equity Release plan will reduce the value of your estate and as a result there may be no value left to pass on. Equity Release will not be suitable for everyone and may affect your entitlement to State benefits.

■ As Equity Release is a complex area only specially qualified advisers can give advice on these schemes.

■ The articles are for information only and do not constitute advice. You should seek professional advice tailored to your needs and circumstances before making any decisions.

this marketplace could be. If we consider the £1.8 trillion of equity held in property owned by the 55+s*, this is more than the total amount of **all** outstanding regular mortgage lending in the UK!**

Do read on, or get in touch to hear more.

(Sources: *Equity Release Council, Market Report, Autumn 2017; **Council of Mortgage Lenders, April 2017 release)



Make **YOUR HOME** work for **YOU**

Lifetime Mortgages account for almost all Equity Release plans.

A Lifetime Mortgage is similar in principle to a standard mortgage, with the main difference being that there are normally no monthly repayments to make and the loan (plus the monthly interest owed) is redeemed when the final planholder dies, or moves into long-term care. The schemes are generally set up on the basis that - for the life of the loan - the interest rate is either fixed (at the time you take out a tranche of money), or at a capped variable interest rate.

Furthermore, as an increasing number of lenders enter the marketplace this has brought about new features and flexibilities, enabling you to opt for products that are better tailored to your own specific needs.

What's the maximum I could raise?

This is largely dependent on the age of the youngest planholder and value of the home. As a rough guide there are differing percentages from aged 55 upwards. Broadly, it's 25% of the property value aged 60, 35% aged 70, 45% aged 80 and 55% aged 90+.

However, if you have an unhealthy lifestyle (such as smoking), or face ill-health, then some 'enhanced' plans may allow you to receive a larger percentage than the standard age breakdowns - as the insurer assumes that you may not live as long.

Although you're not penalised if you then go on and beat the odds!

Should I take all the money at once, or when I need it?

You can do either. Instead of opting for the **full lump-sum** at the outset, **drawdown** allows you to take up to the agreed amount as and when you require it.

Drawdown is the most popular route and around 65% of all lifetime plans are currently set up this way.* The effect of this approach is that it may enable you to stay within limits for means-tested benefits. It would also lessen the impact of the 'rolling-up' of the interest, as some of the loan would not have been drawn down.

However, do remember that the interest rate applicable when you drawdown further funds may be at a different amount. Additionally, perhaps consider products that guarantee the drawdown facility, so that you'll know it won't be an issue whenever you come to act.

What's a typical plan?

Lump-sum lifetime mortgages tend to raise almost a third of the value of the home, and amount to about £96,000.

For drawdown, the average amount initially taken is around £64,000, with a further £39,000 or so available to draw down over time. In total, that's about 29% of the property's value.*

What is Roll-Up?

If you don't make monthly payments to pay off the interest, then the interest owed is added to the capital that you originally borrowed.

To gauge the impact of 'roll-up', let's use the average interest rate of 5.22% for an equity release loan.* In which case, a £50,000 lump-sum loan (with the added interest) would have doubled to around £100,000 in 13.5 years.

In some cases, and if you're able to, the option exists to pay off some (or all) of the interest. The benefit of this approach is that you'll lessen the amount owing, and limit (or avoid entirely) the roll-up effect.

Additionally, with certain plans, there is also the opportunity to pay off some of the capital - without incurring a financial penalty.

In some instances, it will be family members, such as the children, who may help pay off any interest/capital, as they are the ones who are likely to benefit further down the line when it comes to the inheritance.

What happens if I want to cancel the plan?

In much the same way as a standard mortgage, there may be an Early Repayment Charge against certain timescales - the terms of which would vary across the providers.

Are there other equity release plans?

Home Reversion, which accounts for less than 1% of the marketplace is the other option. Unlike a lifetime mortgage, where you retain a full share in your home, in this scenario you sell all or part of your home, thereby giving up at the outset all or part of the ownership.

As Equity Release is a complex area, it's essential that you take advice, so do get in touch to find out more.

*(Source: *Equity Release Council, Autumn 2018 Market Report, 1st Half 2018 data)*



A choice for MANY...

You're free to do whatever you like with the funds raised through Equity Release, which is why it appeals to such a wide range of people.

At the two ends of the spectrum is the impact of **interest-only mortgages** and **care needs**. For the former, there were 1.7m interest-only mortgage loans still in play at the end of 2017.* If payment vehicles aren't able to fully cover the cost of the mortgage at the end of the loan term, then one option may be to raise funds through an equity release plan.

With regard to care needs, many may feel that they would ideally prefer to remain in their own home, plus avoid the sizeable care home costs (in the realms of £31,000-£44,000 per annum**) - unless you qualify for an element of means-tested support.

Conversely, at-home care, may be at a more manageable £11,000 a year for 14 hours a week, and this is where an equity release plan could help. Although do balance this against any means-tested state benefits, and threshold plans for care funding.

In between these two needs, there are a whole host of reasons why you may want to raise funds via equity release - pay bills, settle debts, home improvements, upsizing your home, gifting money to family and friends, holiday of a lifetime, and so on - hence the wide range of clients.

*(Sources: *UK Finance, May 2018 release, **LaingBuisson, May 2017)*

Equity Release borrowers

Research shows that the age groups differ on the take-up of plans:

	New drawdown plans	New lump sum plans
Aged 55-64	56%	44%
Aged 65-74	66%	34%
Aged 75-84	75%	25%
Aged 85+	77%	23%

(Source: Equity Release Council, Autumn 2018 Market Report, 1st Half 2018 data)

Other OPTIONS

Equity Release can be the best solution for some, but you must consider the alternatives. This may replace the need for an equity release plan, or perhaps reduce the size of it.

Downsizing your home

Of course, there's both the emotional attachment you have with your current home, plus the cost of moving, which is around £11,000.* However, this offers a relatively easy way to raise the funds you need now - with the option to take up equity release at a later date, if wanted.

Consider taking in a lodger

If you don't have an issue with someone else living in your home, then this too could be a solution.

Existing or potential State Benefits and Local Authority Grants

If you're already claiming benefits, and some are means-tested, then raising funds may affect your ability to continue to claim (or reduce the regular payments). Additionally, there may be some benefits that you should be claiming for, but are not aware of.

Look at your existing investments and savings portfolio

You'll need to take professional advice to decide if securing money this way is a better option.

*(Source: *Lloyds Bank, September 2016)*

Peace of Mind for YOU



If you opt to borrow via a lender that's a member of the Equity Release Council (ie. most of them), then a number of controls are already in place to protect you, such as:

- All products from Equity Release Council members have a guaranteed security of tenure, so customers will be allowed to remain in their property for life, or until they move into long-term care, provided that the property continues to be

their main residence. In the case of a joint policy, this then applies to the last surviving borrower.

- Plans from Equity Release Council members have a 'no negative equity' guarantee. This means that regardless of the value of the home or how long the customer lives, they will never owe more than the value of their home and no debt will ever be left to the estate.
- Customers have the right to move, although they may have to repay part of a lifetime mortgage loan if moving to a cheaper property.



It's good to TALK...

To fully understand what equity release may offer, you must take advice. From us, from a solicitor, and maybe your accountant too; as well as possibly sounding out your family members. And as the pros and cons need to be weighed up, you can take comfort from the fact that advisers who cover this area - such as us - have secured additional qualifications.

In addition to this reassurance, as previously said, there are a number of customer controls in place from the Equity Release Council, some of which are set out on page 3. Furthermore, both Lifetime Mortgages and Home Reversion Plans are regulated by the Financial Conduct Authority.

Considering your options

For our part, we would listen to your needs, identify the options, and if you want to proceed, we'd then undertake a lot of the legwork.

As part of the initial process, we would discuss if there are better alternative options out there for you - such as downsizing your home. Or should you prefer to

remain in your current home, then the amount you may need to borrow could be reduced if you're prepared, for example, to take in a lodger.

Elsewhere, we'd need to assess if equity release might impact upon your existing (or available) state benefits and grants - if they're means-tested.

Another consideration would be any long-held investments, or a small pension from a past employer that you may have misplaced or forgotten about. It makes sense to ensure that you're fully up-to-date in this respect (see item below).

The inheritance issue

Whilst it's your home, it's also possibly your family's future inheritance.

In some cases, the inheritance might be very important to them, although a number of borrowers do use funds to help their family now - when they may possibly need it (and when the borrower is around to see family members benefit) - rather than it being passed on after death.

Conversely, some family members take

the view that it's your money, and that you should be the one that benefits from it.

The structure of the plan

An advantage of new 'household name' lenders entering the marketplace is that there's more competition, and with it, increased product innovation.

This delivers greater flexibility for us to then tailor a plan that best meets your needs, such as:

- Pay off (or don't pay off) any interest on your loan - and possibly some capital too.
 - Opt for lump-sum, or perhaps decide to draw down funds, only when required.
 - Consider a plan that may offer enhanced benefits, should you suffer from ill-health, or a poor lifestyle.
- And there's plenty more to talk about beyond this...

Understandably, it's a pretty complex area, but one that we specialise in, so please do get in touch to find out more.

Useful LINKS

How much is your home worth?

Aside from getting it valued, you can check out the sale prices of comparable properties in your area: www.nethouseprices.com

Tracing lost or mislaid...

■ Pensions

www.gov.uk/find-lost-pension
0800 731 0193

■ Bank, Building Society, or National Savings accounts

www.mylostaccount.org.uk
Bank account:
020 3934 0329 (UK Finance)

Building Society account:
020 7520 5900 (Building Societies Ass.)
National Savings account:
08085 007 007 (National Savings and Investments)

■ Insurance policies, pensions, unit trust holdings and share dividends

www.uar.co.uk
0333 000 0182 (The Unclaimed Assets Register)

■ Information on State Benefits

To see what you may be entitled to:
www.gov.uk/dwp

■ Our typical broker fee is £850 and we also take a commission from the equity release provider.

■ The contents of this newsletter are believed to be correct at the date of publication (Oct. 2018).

■ Every care is taken that the information in this newsletter is accurate at the time of going to press. However, all information and figures are subject to change and you should always make enquiries and check details and, where necessary, seek legal advice before entering into any transaction.

■ The articles are for information only and do not constitute advice. You should seek professional advice tailored to your needs and circumstances before making any decisions.