

# Retirement FREEDOM

Information about **Releasing Equity** in your **Property** Winter/Spring 2021

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*If you're a homeowner aged 55+, and want to raise money to meet your future needs, then we may be able to help.*

**A**s you move towards - or are in - your retirement years, there may be a whole host of things you want to do, some of which you might have been putting off for years.

However, having enough money to pay for bigger plans, on top of everyday essentials, can be tough. And perhaps more so these days, after the social and economic fallout from COVID-19.

To counter this, you can gain a great deal of comfort from spending your remaining years within the home you've built up over time, and one that holds many memories.

Additionally, you may have benefited from sizeable property price growth over the years. In the last 30 years, for example, the average **property price has risen from £54,919 to £229,819 - more than a fourfold increase!**

*(Source: Nationwide House Price Index, Q4 1990 vs. Q4 2020)*

The benefit of this sizeable growth is that it opens up the opportunity to raise money against the value of the property.

### Tax-free money!

Of course, if your savings, investments, pensions, or even State support deliver enough

to meet your needs and it all makes sense taxwise, then great.

But if you're looking for other options and want to stay in your current home, rather than downsizing to raise funds, then getting **tax-free money** against the value of your home, could be an option to consider.

### Lifetime Mortgage

Generally, this is done via a lifetime mortgage, which is the most popular form of equity release, and here are some of the key elements:

#### ■ Freedom to spend the funds however you want

You could use the money for a wide range of needs, such as...

- clear an outstanding mortgage.
- sort much-needed home improvements.
- settle debts.
- assist with regular bills.
- secure money to adapt the home for care needs, or help with ongoing care costs.
- gift money to family and friends.
- fund a number of special treats, such as the holiday-of-a-lifetime, a new car or fully indulging in your interests and hobbies.

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■ **EQUITY RELEASE MAY REQUIRE A LIFETIME MORTGAGE OR HOME REVERSION PLAN. 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.**

#### ■ **No affordability criteria to meet**

If you know of friends or family members who've been applying for a normal residential mortgage, then you'll realise the significance of this.

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# Enjoy your LIFE... (contd)

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## ■ Same fixed interest rate for the whole term (in general)

The importance of this benefit won't be lost on you, with interest rates at their current low level. The average lifetime mortgage fixed rate is 4.17%, but in some circumstances it could be as low as circa 2.5%.

*(Source: Moneyfacts, average fixed deal rate, December 2020)*

## ■ No need to make any monthly payments

You can opt to not make any monthly payments, for as long as the deal runs. Which would run until the last borrower dies, or moves out of the home into long-term care.

## ■ However, you can also lessen the impact of roll-up on the interest owed

Whilst there are financial protections in place for borrowers, releasing equity from your home is not free money! The lenders

are simply getting their financial return down the line. This means that the impact of the borrowing would be felt by those inheriting.

One way of protecting the potential inheritance, is to pay off some, or all, of the interest along the way. If all of the interest owed was paid each month, then the lender would only be claiming back (at the end of the term) the return of the 'capital amount'.

To give you an idea of the impact of not paying the interest and letting it roll-up alongside the capital owed, the total amount owed could have doubled in 17 years, if worked against the 4.17% average rate.

In which case, if it's viable for either you - or perhaps those inheriting - to pay the interest owed, then it will be beneficial in the long-run. Plus, you could always

decide to stop paying the monthly interest further down the line.

## ■ No negative equity guarantee

A key protection for the lifetime mortgage borrower, is that neither you, nor your estate, will ever owe more than the value of your home (subject to the product's terms and conditions).

## ■ Benefit from ill-health!

It sounds perverse, as you're told throughout life to look after yourself, but you may obtain a better deal if you have a qualifying medical condition. In short, the underwriters are assuming those with ill-health won't live as long. It's then down to you to prove them wrong!

## ■ The loan can offer flexibility

Around two-thirds of borrowers take an initial lump sum, and then 'drawdown' a further agreed amount should they need more funds at a later date (albeit this may be at a different fixed interest rate). The benefit of this approach is that it avoids paying interest on funds you don't need at that particular period of time.

## ■ You continue to own your home

Like a residential mortgage, you're simply borrowing against it while remaining the owner. And you would continue to benefit from any increases in property prices.

**Please do get in touch to hear more.**

# Lifetime Mortgages

*It makes sense to seek advice, as different lenders will have different product offerings, and varying criteria on who they are prepared to lend to. Some will limit their lending to certain types of property, or property value, others may only lend in certain parts of the UK. Here are a few pointers for a Lifetime Mortgage...*



Aged 55+.

If taken out jointly, then this is, generally, the age requirement of the youngest person.



You own your own home (generally worth £70,000+) with a small mortgage/no mortgage.



Broadly, those aged 60 can borrow around 25% of the home's value, rising to just above 50%, if aged 90+.



You can either take out all of the money at once, or opt for a drawdown facility, to take an initial amount, and then more 'agreed' funds, when needed.



# We are there for YOU...

*Much has been done over recent years to ensure that those who operate in the Equity Release industry - advisers, lenders and industry bodies - are delivering the best possible service for their clients.*

## Protecting the future inheritance

Later life lending, such as equity release, can impact future inheritance, so you may want to involve your children in this process. And, even more so, as attitudes to inheritance change - with many wanting their parents to raise money now - either for themselves, or for their children's needs.

However, some beneficiaries will be concerned that a future inheritance is being eroded, due to the equity release plan reducing the value of your estate.

Lenders fully recognise that the erosion of equity in the property can be an issue. There's already the **No Negative Equity Guarantee** for plans taken out that meet the Equity Release Council standards - the industry body. Additionally, there are some plans out there that will allow clients to **protect a percentage of the future value of**

**their home** to ensure they can leave that as an inheritance.

## Increased competition amongst lenders

Another good sign is that more lenders have entered this sector in the last few years, which has helped to deliver greater choice, and more competitive interest rates. By the end of 2020 there were as many as 473 fixed rate equity release deals on offer. A 21% increase against December 2019.

This may have had a bearing on the average fixed rates which stood at 4.17% at the end of 2020 vs. 4.50%, a year earlier.

*(Source: Moneyfacts, December 2020)*

## Wanting to move home

In general, equity release is seen as a product that enables you to stay in your home.

However, some have also used an equity

release loan to help purchase a more suitable property, that better meets their retirement needs.

## More flexible plans

Lenders are also aware that historical early repayment charges may be a concern. This has resulted in a number of plans now available that lessen the effect of an Early Repayment Charge (ERC).

Or there are plans that allow a downsizing repayment option, with no ERC payable, and others that don't penalise you for repaying back some of the interest and capital borrowed.

**With so many different product options out there, it's not just about getting the best interest rate.**

**That's why you must take advice.**

## Other options do exist...

Equity Release may be the best solution, but you should also consider other options, such as:

### ■ Downsize your property

This could provide the required funds, but should be balanced against how keen you are to remain in your current home, along with the cost of moving.

### ■ Assess other income streams

This would cover your pension, investments and any other savings. Also, across your lifetime, there's a good chance that you may have forgotten about a long-held investment, or a small pension from a past employer. You can talk to us, or take a look at the useful links on the last page.

### ■ Consider other borrowing options

Other types of borrowing may also be available to you.

### ■ Rent out a room

This could prove to be a useful income stream, if you're ok with sharing your home with others.

### ■ Possible impact on means-tested state support

You want to avoid raising money that then jeopardises any state support, should you be claiming means-tested benefits. This may affect your ability to continue to claim (or reduce the regular payments). Alternatively, there may be some benefits that you should be claiming for, but aren't.



# Time to REMORTGAGE?

*If you took out an equity release mortgage a number of years ago, then it may be worth having a conversation to see if remortgaging the loan makes sense.*

In the same way that you may have taken out a new residential mortgage deal over the years, you can do exactly the same with your equity release mortgage to obtain a better interest rate, or raise more money (although your current deal may also allow you to drawdown more funds).

## Early repayment charges

The key issue to consider is the freedom you have to remortgage with regard to your current deal. Some lenders terms will be less onerous than others, and the amount of time that's lapsed between first taking out the deal, will also have a bearing on possible charges.

## So, why do it?

Aside from improved product options, a key consideration would be the excellent rates that are currently on offer.

The average fixed deal rate is around 4.17%.\* If you took out an equity release mortgage a number of years ago, you might be paying a 6-7% fixed interest rate.

If you consider, for example, that you'll

be around for at least another 15 years, and you've opted to not make any interest payments, then the roll-up difference will be a substantial amount, as follows:

### Fixed Rates for a £50,000 loan, and the interest rate roll-up effect

#### Fixed interest rate Total owed after 15 years

7%	£137,952
6%	£119,828
4.17%	£92,281

If you were on a 7% rate, then (vs. the 4.17% rate) an extra £45,671 could be added to the overall money outstanding on your equity release loan and reduce the amount that would be passed on to your beneficiaries. Even if it was a 6% rate, then it's still an extra £27,547.

And, remember the 4.17% fixed rate figure is an average rate, with some possibly qualifying for rates at around 2.5%!

*(Source: \*Moneyfacts, average fixed deal rate, December 2020)*

## Your needs have changed

Receiving ongoing care in your home could be a bigger issue than when you first took out your loan. So, you may want extra

funds to modify your living space and pay for carers. Alternatively, the bills may be mounting up, or it could simply be that now's the time for the holiday-of-a-lifetime.

Also, over the years, grandchildren will have grown up and you may want to help them with their university education, their first car, or perhaps a deposit for their first home. Better to give with a warm hand, than a cold one!

## You have changed

Looking to remortgage your deal a number of years after initially taking it out, will obviously mean you're older. This may open you up to better age-break borrowing thresholds, and possibly better rates.

Also, your circumstances may have changed (ie. income stream, divorce), meaning you now have different priorities.

Or, your health may have taken a turn for the worse. In equity release lending, the rates may then be more beneficial for you.

**You may have to pay an early repayment charge to your existing lender if you remortgage your equity release loan.**

## 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](http://www.nethouseprices.com)

### Tracing lost or mislaid...

#### ■ Pensions

[www.gov.uk/find-lost-pension](http://www.gov.uk/find-lost-pension)  
0800 731 0193

#### ■ Bank, Building Society, or National Savings accounts

[www.mylostaccount.org.uk](http://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](http://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](http://www.gov.uk/dwp)

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■ The contents of this newsletter are believed to be correct at the date of publication (Jan. 2021).

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■ 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.