BAKER DAVIES
Independent Financial Advisers

Equity Release

Do you have money tied up in your home which could help you now?

'Equity Release' is a specialist area of advice for the over 55s and we are authorised to help and advise you.

It might involve releasing capital from your property in one of two ways and for many different reasons:

-To pay off an existing mortgage or other debts.

-To generate additional income in retirement.

-To help pay for additional care.

Whatever your needs, Baker Davies can discuss the options available to you.
Just call us on 01202 716455.

More generic information is available below, courtesy of the Money Advice Service.

What is Equity Release?

Equity Release describes a range of products available when you are older, typically over the age of 55. They enable you to release the equity (cash) tied up in your home without moving.

The products have no fixed term and allow you to stay in your home for the rest of your life, unless you have to move into long-term care, or if you break the terms of your equity release contract, for example if you let your home fall into disrepair.

Equity Release schemes can be helpful in certain circumstances, but are not suitable for everyone. For example, they can be expensive and inflexible, if your circumstances change they may affect your entitlement to state or local authority benefits.

Equity Release schemes are not the same as sale-and-rent-back schemes, which are very risky and should only be considered as a last resort.

Equity Release – How does it work?

You can either borrow money which is secured against your home (called a Lifetime Mortgage), or sell part or all of your home (called a Home Reversion scheme). This can give you a lump sum, a regular income or both.

There may be a minimum amount you have to take. This depends on the scheme and the provider and could be, say, £15,000 or £25,000. But you may not have to take it all at once.

Types of Equity Release

Equity Release schemes are either Lifetime Mortgages or Home Reversion plans. You'll need to get information about both so you can decide which one is right for you.
They both work differently and are quite complicated, so it's important to have specialist financial advice.

Lifetime Mortgage

With a Lifetime Mortgage you take out a loan secured on your home which does not need to be repaid until you die or go into long-term care. It frees up some of the equity you have tied up in your home and you can still continue to live there.

How does it work?

As with a conventional mortgage, you borrow money secured against your home. Your home still belongs to you. Interest is charged on the amount you have borrowed, which you can either pay or add on to the total loan amount. When you die or move out, the home is sold and the money from the sale is used to pay off the loan. Anything left goes to you or your beneficiaries.

If there is not enough money left from the sale to pay off the loan, your beneficiaries would have to repay any extra above the value of your home from your estate. To guard against this, we only recommend Lifetime Mortgages which offer a no-negative-equity guarantee. With this guarantee the lender promises that you (or your beneficiaries) will never have to pay back more than the value of your home – even if the debt has become more than this.

Types of Lifetime Mortgages

There are different types with different costs. You can choose from:

A roll-up mortgage - You get a lump sum or are paid a regular amount and are charged interest which is added to the loan. This means you don't have to make any regular payments. The amount you originally borrowed, including the rolled-up interest, is normally repaid when your home is eventually sold.

A fixed-repayment Lifetime Mortgage - You get a lump sum, but don't have to pay any interest. Instead, the lump sum to eventually be repaid is agreed in advance and is higher than the lump sum raised. When the home is sold, you have to pay the lender the higher amount.

An interest-only mortgage - You get a lump sum and pay a monthly interest on the loan, which can be fixed or variable, rather than having the interest roll up. The amount you originally borrowed is normally repaid when your home is eventually sold.

Lump sum or income?

When taking out a Lifetime Mortgage, you can borrow a lump sum, take advantage of a drawdown facility or do a combination of both. The flexible or drawdown facility enables you to take regular or occasional small amounts, perhaps to top up your income, rather than one big loan, as it means you only pay interest on the money you actually need.

Is it right for you?

It depends on your age and circumstances. This is where the value of seeking specialist advice really shows as your adviser will ensure that all the options are discussed to ensure that the most suitable option for you is recommended.

Here are some factors to consider.

With a **roll-up mortgage** the total amount you owe can grow quickly. Eventually this might mean that you owe more than the value of your home, unless you have a no-negative-equity guarantee. We always make sure your mortgage includes such a guarantee.

A **fixed-repayment mortgage** becomes a better deal if you live much longer than the lender thinks you will. But if the home is sold much earlier than you planned, you will get a worse deal, unless selling to go into care.

An **interest-only mortgage** with variable interest rates may not be suitable, because the interest rate may rise faster than your income.

It can affect what you leave as an inheritance.

It may affect your tax position and entitlement to means-tested benefits.

Lenders will expect you to keep your home in good condition. You may need to set aside some money to make sure you are able to do this.

Home Reversion

Baker Davies don't provide advice on Home Reversion schemes but if it is the most suitable option for you we will inform you of this and refer you to a financial adviser who is able to help.

With a Home Reversion, you sell all or part of your home in return for a cash lump sum, a regular income, or both. Your home, or the part of it you sell, now belongs to someone else. However, you're allowed to carry on living in it until you die or move out, paying either no rent or just a token amount.

How does it work?

Home Reversion involves a company buying your home or a part of it. In return you get a cash lump sum or an income.

You'll usually get between 20% and 60% of the market value of your home. The buyer:

-Allows you to carry on living there, either rent-free or at a lower-than-market rent, and
-cannot sell it until you die or move into care.

The older you are when you start a home reversion scheme, the higher the percentage you'll get of your home's market value.

You get the right to carry on living in the home under a lease. The terms of the lease will vary depending on which reversion you choose. You may have to pay a nominal rent of say £1 each month, or you may have the choice of paying a higher rent in return for more money from the sale.

Is it right for you?

A Home Reversion can be a useful way of releasing equity from your home but you must be sure it is right for you.

If you want a lump sum or income now, and want to stay in your home, and you do not need anyone else (e.g. children or other family members) to benefit from the full value of your home, a Home Reversion may be worth considering.

You will no longer own your home (or only own part of it). However, you will still have to maintain the home while you live in it, so you may need to set aside money to do this. You'll also have to follow the terms of the lease and make regular rent payments. If this could be a problem, then a Home Reversion may not be suitable for you. It is essential that you appoint your own solicitor to check the lease and give you advice.

Home Reversions are normally best suited to older people, perhaps over 70 or 75.
Source: https://www.moneyadviceservice.org.uk