

Understanding equity release

A guide to using property wealth to meet financial needs



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the private office

Introduction

For many of us our home is our most valuable asset and it has the potential to play a greater role now and in the future in effective later life planning.

The significant increase in property values in recent years have created opportunities for homeowners aged 55 or above, with many more people releasing some of the equity available as part of a financial plan to help them achieve their financial goals and objectives.

If you would like to use some of your property wealth to meet your financial needs, there are a range of products which enable you to release equity from your home.

As with any major financial decision, it is important that you seek specialist advice from a reputable independent firm. This is where The Private Office's specialist equity release team can set you on the right path.

Why consider equity release?

It can be particularly useful in the following scenarios:

- If you want to free up capital to help your children or grandchildren get a foot on the property ladder or to assist with other expenses including school fees.
- To replace an existing conventional mortgage in or on retirement. This can be an alternative to downsizing where you don't have enough cash flow to service mortgage repayments or have sufficient liquid assets available to full repay your existing mortgage at the end of the term.
- If you need some capital for home improvements and would prefer not to touch your more liquid assets, such as your savings or investments. This way your regular cash flow will not be adversely impacted.
- If you or your spouse don't qualify for NHS, State or Local Authority funding assistance and you need more funds available to pay for comprehensive and often expensive care at home.
- As part of an inheritance tax mitigation strategy where you gift the monies released on to the next generation. This could provide a very valuable saving to inheritance tax after 7 years and possibly from the end of year 3 depending on the amount gifted.
- To top up your pension income or take less cash flow from your pension plans. Following the introduction of Pension Freedoms there is also the argument to take less money out of pension plans now which are typically inheritance tax free and instead use equity from your property.

This is a highly regulated area of the market and there are a range of different providers and plans to choose from.

Ultimately you are using some of the equity you have accumulated in your home and we can guide you in what can sometimes be quite an emotional decision.



Types of plan available

Before proceeding, it is important to consider the different types of plan available to find the most suitable option for you.

You could of course simply downsize your property and buy a less expensive one which will release equity. There are costs involved in doing so and often there is less surplus capital then available as a result.

If downsizing is not for you then there are, broadly speaking, two main types of equity release plans available on the market, **Home Reversion Plans** and **Lifetime Mortgages**.

Home Reversion Plans

- You sell part or all of your home at a discount (so for less than its market value) to a home reversion provider, in return for a lump sum or regular payments.
- You have the right to continue living in the property until you die, rent free, but you have to agree to maintain and insure it.
- You can ring-fence a percentage of your property for later use, possibly for inheritance.
- The percentage you retain will always remain the same regardless of the change in property values, unless you decide to take further cash advances.
- At the end of the plan, your property is sold and the sale proceeds are shared according to the remaining proportions of ownership.



Lifetime Mortgages

- You take out a mortgage secured on your property while retaining ownership.
- Lenders are offering fixed interest rates on the borrowings and the rate of interest is fixed for your lifetime at the start of the loan.
- Unlike a traditional mortgage you can choose to let the interest roll up or make ad hoc or regular repayments. Importantly the loan amount and any accrued interest does not need to be paid back until you die or when you move into long-term care.
- The amount you can release when taking out a lifetime mortgage is dependent on your age (youngest age for joint homeowners), value of your property and some lenders might offer higher releases to those with certain past or present medical conditions.
- The amount you can release increases with age.
- You can include a reserve facility so you can easily access further monies through the same lifetime mortgage as and when needed in the future and the interest rate on any monies from the reserve facility will then be fixed for your lifetime at the lender's prevailing interest rate at the time.
- You or ultimately your beneficiaries will benefit from any increases in the property value.
- You retain the right to live in your house for the rest of your life and the plans we recommend all include a 'no negative equity' guarantee which means that you will never owe more than your property is worth.
- The lifetime mortgage is portable and can be transferred to your next property if you decide to move, subject to the new property being acceptable to your lender as continuing security for your equity release loan.
- You can choose to ring-fence some of the value of your property as an inheritance for your family.



Important information

Equity release can be more expensive in comparison to an ordinary mortgage. If you take out a lifetime mortgage, you will normally be charged a higher rate of interest than you would on an ordinary mortgage and your debt can grow quickly if the interest is rolled up.

If you release equity from your home, you might not be able to rely on your property for money you may need later in your retirement. For instance, if you need to pay for long-term care.

There might be early repayment charges if you change your mind, which can be expensive, although they are not applicable if you die or move into long-term care and in some other scenarios.

Releasing equity from your home may affect your entitlement to means-tested State benefits.

A personalised illustration will be provided as part of a recommendation to ensure you understand the features and risks.

Key factors to consider at a glance

	Lifetime Mortgage	Home Reversion Plan
Do I still own my home?	Yes, but the mortgage has to be paid back if you move into long-term care or after your death.	Possibly, under a home reversion plan you have the option to sell all or a fixed percentage of your home at the start of the arrangement.
Do I have to pay anything?	This will depend on the type of lifetime mortgage you take out. Usually you will pay nothing but some products do allow you to pay the interest.	As you have sold some or all of your property it is unlikely that you will pay anything other than, in some instances, a small 'peppercorn' rent of around £50 each year.
What happens if I change my mind?	You can pay off a lifetime mortgage at any time, but there's likely to be an early repayment charge and this may be high.	You may be able to cancel a home reversion in very limited circumstances, but this could be very expensive.
What happens if I die before my partner?	If the lifetime mortgage is in both of your names the arrangements will continue. If the scheme and the property are both in your sole name, the property would have to be sold and your partner would have to move unless, for example, they could repay the lifetime mortgage in full.	The same applies.
What happens if I want to move?	Most lifetime mortgages can be transferred to the new property. If you are moving to a lower-value property, you'll usually have to repay part of the lifetime mortgage. If you can't transfer the scheme, you will have to repay the whole mortgage when you sell your property. The roll-up of interest might mean you have less than expected to buy a new property with. There may be charges if you repay the loan early. If you think that you may want to move at a later date, you should check if there are any restrictions on moving before entering into the arrangement.	Some home reversion plans can be transferred. If you can't transfer the scheme, you will have to buy back the property/share of the property. This could be very expensive and might not leave you with enough to buy the new property. If you think that you may want to move at a later date you should consider whether a reversion plan is the correct equity release arrangement for you.
What if I owe more than my property is worth when I die?	The loan and rolled-up interest can increase to more than the potential rise in the value of your property. However, all lifetime mortgages we recommend come with a no negative equity guarantee which means that your beneficiaries won't have to repay more than the value of your property.	This does not apply to home reversion plans as you sell some or all of your property at the start of the arrangement.

Our approach

Our experienced specialist equity release team will arrange a personal consultation to talk through your requirements and get to know your particular circumstances and plans.

If you want to proceed to the next step, we will undertake full research and present you with our recommendations, which we will run through with you in detail. When you are completely happy with our recommendation, we will help you to complete the application and assist with the underwriting process.



DONNA BUFFHAM
PARTNER

Donna is one of our Partners and is an experienced and highly qualified Chartered Financial Planner.

She advises on all areas of financial planning and has specialist knowledge on later life advice which includes equity release. She enjoys working in partnership with clients, their families and professional advisers in developing strategies and tailored financial plans to best meet their needs and objectives.

Her professional qualifications include:

- Accreditation of Training Excellence for Later Life Advisers by the Society of Later Life Advisers (SOLLA)
- SOLLA Retirement Advice Standard
- Certificates in Lifetime Mortgages and Home Reversions (Equity Release)
- Certificate in Long Term Care Planning
- The STEP Certificate for Financial Services (Trusts & Estate Planning)
- Advanced Diploma in Financial Planning
- Certificate in Life & Pensions



ABIGAIL BANKS
SENIOR ADVISER

Abigail is one of our Senior Financial Advisers and is a highly experienced Chartered Financial Planner.

Abigail provides bespoke advice to private clients across a range of financial planning areas including retirement planning, inter-generational planning and equity release advice.

She is passionate about building long-term relationships with her clients to guide and support them through the financial complexities of life to ensure they can plan for their future with clarity and confidence.

Her professional qualifications include:

- Chartered Financial Planner
- Advanced Diploma in Regulated Financial Planning
- Diploma in Regulated Financial Planning
- Award in Pensions Update
- Certificate in Pension Transfer Advice
- Certificate in Equity Release
- Certificate in Mortgage Advice
- Award in Long Term Care Insurance

Testimonials

“Thank you for everything you did with the Lifetime Mortgage and definitely, will keep it in mind with regards to any other financial advice you can offer.”

Client

“A very belated note to say thank you for you and the team’s work in arranging my mother’s lifetime mortgage! I would recommend your services in future.”

Son of a client

Our fees

Our approach to fees is simple – we aim to ensure that clients are clear about the services being provided and the fees they are required to pay for those services. We aim to agree fees that represent fair value, both to ourselves and our clients. This provides a solid foundation for a successful long-term relationship.

There will typically not be any fees incurred until our outline recommendation has been discussed and is accepted as we feel it is really important that you can make an informed decision without any cost pressure.

Our planning fees for providing an equity release service start at £5,000 and this will be settled fully, or in part, by the procurement fee paid by the equity release provider on completion of the lifetime mortgage. This does not affect the terms of the lifetime mortgage

Transparency is key, particularly where fees are concerned. Fees will be detailed in monetary terms, and agreed by you in advance. You will also be notified of any additional costs which might be incurred, prior to work commencing.



Financial planning expertise

Equity release is just one area of financial planning and The Private Office can advise you on all aspects of your finances.


We are an award-winning firm of Chartered independent financial advisers united by one vision: to provide personal and tailored wealth management services to those in search of stability and guidance.

We combine more than 20 years of experience and skills to provide you with the financial advice you need, no matter how unique your situation.

Unlike the many UK firms that offer restricted advice, we are an impartial, chartered financial advisory firm. We offer unbiased, whole-of-market expertise and a range of investment options.

We are an independent advisory firm that has been awarded the exclusive CII Chartered Standard of Excellence, one of the highest standards of professionalism in the financial planning industry.

Our work has won the trust of thousands of clients, including individuals, families, and business owners.

A photograph of a man and a woman sitting at a wooden table in a modern, bright room. The man, on the left, is bald with a grey beard and is wearing a maroon sweater. The woman, on the right, has short brown hair and is wearing a white sweater. They are both looking at a laptop screen. On the table, there are some papers and a pen. In the background, there is a large window and a fireplace.

Ready to reach your financial goals?
Get in touch with our team today
on 0333 323 9060 to find out how
our experts can help you.

Notes

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