



Equity Release - Unlocking money from your home

Equity Release Plans

Many retired people who live on a small pension and limited savings may be living in properties which have risen in value in recent years. Indeed some people may not be aware of the true value of their home.

Equity release plans – also called home reversion, home income plans or lifetime mortgages – are a way of unlocking this capital to make life more comfortable. These schemes allow you to borrow money against the value of your home, with the loan usually being repaid from the sale proceeds after your death or when you move into long term care.



How do they work?

All schemes lend you a part of your home's value in return for a share of the proceeds when you die. In most cases you will need to be at least 60 years old, have no outstanding mortgage (or you will need to use the equity release money to pay off the existing loan), and own a property in reasonable condition.

Equity release plans - the advantages

- They can provide a lump sum, a regular income or both.
- Cash released from the value of your property is tax free.
- You don't have to move house or sell up to unlock this capital. With reputable equity release schemes there is a guarantee that you will be able to continue to live in your home until you die or move into long term care.
- They can be a method of mitigating inheritance tax. They could be used, for example, to give a child or grandchild the deposit to buy their own property or the capital released could be reinvested in a scheme to provide tax-efficient income.
- They can be used to pay for care bills.

Equity release will not suit everyone. It is always worth considering whether funds could be raised affordably from other sources before going down this route.

Home Reversion Schemes



You sell your home, or a share of it, to a reversion company for a lump sum or in return for a monthly income (or a combination of both). You become a tenant, with the right to continue living in your home rent-free for the rest of your life. When the property is sold the reversion company gets its payout. If, for example, you sold 50% of your property to the reversion company, it gets 50% of the proceeds, including any growth.

The reversion company will only pay you a percentage of the current market value for the share of your property it buys. This is because you get to carry on living in the property until you die, and the company may have to wait years for its return. If you

sell all of your property to the reversion company, for example, you will typically get between 30% and 50% of its current value. It will rarely be more than 60%. The actual figure will depend on your age (and your partner's). Older people will get more, and men get more than women – because of differences in how long they are expected to live.

Home Income Plans

You take out a mortgage against your home and use the money to buy an annuity which guarantees you an income for life. Mortgage payments are deducted from this monthly income, although the original capital is only repaid from the sale proceeds, normally after you die.

Roll-up lifetime mortgages

The lender gives you a lump sum, monthly income or both. You pay nothing – the interest is ‘rolled up’ into the loan. The amount borrowed plus this interest is repaid out of the proceeds from the sale of the property after you die. How much you can borrow depends on the value of your home and your age – the older you are, the higher the percentage of your property’s value you can borrow. Generally, you will not be advanced more than 50% of the value of the property.



Consult your family first



While equity release plans can be a good way of mitigating inheritance tax, they will also reduce what your family will inherit. It is probably a good idea to discuss any proposed plan with close family members. This may help avoid any misunderstanding in the future. Children may be prepared to help you out financially instead of you taking out an equity release plan. They could then inherit the whole property. We will be able to advise on any tax issues involved.

Alternative Solutions

You may have other assets or investments, which could increase your income or give you the lump sum you need. We will be able to take a holistic view of your financial situation. You may wish to consider whether moving to a less expensive property might be a better way of releasing capital tied up in your home.



State benefits

If you receive means-tested state benefits, these could be reduced or lost altogether. We urge you to check the rules before you take out an equity release plan.

How do I avoid any risk?



Look for plans carrying the SHIP logo (for Safe Home Income Plans). Companies who are members provide a number of guarantees, including: you will have the right to live in your property for life; the freedom to move to an alternative property without penalties; and that you will never owe more than the value of your home. If you are very old or in poor health you should think carefully about schemes paying monthly incomes – you may not live long enough to get a decent return.

Costs

The equity release market is becoming more competitive. But interest rates on mortgage-based schemes are still higher than those on ordinary mortgages. The rates are usually fixed for life, meaning that you will be able to calculate outstanding balance at any given time. Most equity release plans also involve paying valuation and legal fees, although these may be

refunded assuming you go ahead. You remain responsible for repairing and insuring your home, and will still have to pay the Council Tax. Reversion companies in particular will expect you to maintain your home to a reasonable standard to protect their investment.

Can you move or sell up?

You may want to sell your house at a later date and move somewhere smaller or more suitable for your needs, or you may want to sell up completely to move into rented sheltered housing or into a care home. You should check whether any plan you are considering allows you to transfer it to a new property or whether there is a penalty if you end the scheme before death.



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