



EQUITY RELEASE GUIDE

Everything you need to know about equity release.

An informative guide from the equity release specialists

The informative guide to equity release...

Equity release has come a long way since regulation in 2007, as the UK's 55 + population looks to safely take advantage of their biggest asset to fund their ambitions. Equity release is helping the growing number of people who want to use their property as a sensible, way to improve their lifestyle without having to sell their home.

Lifelong aspirations, debt-clearance, income top-ups or family matters may be the reason you have enquired about equity release. Now it is time to see if equity release is the right way to achieve your aims.

This guide is designed to simplify equity release and debunk the myths, without taking away any of the detail and information that will help you make your decision. It will also bring the new money saving features to life using examples based on industry facts.

Equity release may involve a lifetime mortgage or home reversion plan. To understand the features and risks ask for a personalised illustration.

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What is equity release?

Equity release lenders now give homeowners aged 55+ the option to turn the equity built up in their property into tax-free cash without selling or downsizing. You continue to own the property 100%, keep the deeds in your name and have the right to remain in your property for life.

Equity in your home is the difference between the home's fair market value and the outstanding balance of all mortgages, secured loans and charges on the property. Usually, to access your equity you would need to sell your property or remortgage with difficult monthly repayment commitments.

However, equity release is a product designed to meet the needs of asset-rich homeowners who don't want to move. It's popular because it makes sense. The equity release lenders like to invest in reliable, long-term UK property whilst those releasing equity benefit from gaining access to money that would have otherwise been tied up for life.

The money you receive is yours to spend as you please and as the equity is already yours, it is completely tax-free. You can also choose how you would like to receive the money - whether it be a cash lump sum, an account to draw upon as and when required, or a mixture of the two.

The Equity Release Council



All responsible equity release lenders adhere to the standards set by Equity Release Council and uphold all of its standards and regulations. The Equity Release Council, formerly known as SHIP, is an organisation dedicated to the protection of the equity release consumer through a code of conduct which goes over and above Financial Conduct Authority regulations.

Responsible lenders only ever recommend equity release plans that adhere to strict Equity Release Council standards. Only those who hold the required qualifications are allowed to advise and arrange an Equity Release Council plan.

How equity can build up in a property

- Peter buys a house for £200,000.
- Peter personally pays £100,000 and borrows £100,000 in the form of a mortgage.
- The value of the home has increased to £300,000 over the years and Peter has paid off all but £20,000. Peter has £280,000 equity.
- Peter can access a percentage of this through equity release.



“It’s nice to see their inheritance in action. Because of equity release, my granddaughters don’t want for anything when it comes to education.”

Types of equity release

There are three main types of equity release. This guide will not advise on home reversion plans. These examples below advise on lifetime mortgages where you retain 100% ownership and the deeds to your property.

1) Roll-Up Lifetime Mortgage

- You receive a cash lump sum and maintain 100% home ownership.
- **There are no monthly repayments to make.**
- Interest will accrue on the amount of cash you choose to release.
- **The interest and lump sum amount will be paid off when the last home owner on the deeds dies or moves into permanent long term care.**
- Your estate will usually settle the amount owed from the sale of the property. Most lenders allow up to 12 months for the estate to sell the property without interference. If your family would like to keep the property instead, they are welcome to pay the balance from other means.

2) Drawdown Lifetime Mortgage

- Works the same as a Roll Up Lifetime Mortgage except you can choose to release the money flexibly, as and when you need it.
- **You can choose to have money in a reserve account, ready to draw down.**
- Interest will not accrue on the money held in reserve until you have released it.
- **Allows you to reduce the interest charged and have the safety of a cash reserve, ready to draw upon when needed.**

3) Interest-Only Lifetime Mortgage

- As with the Roll-up and Drawdown Lifetime Mortgages, you receive a cash lump sum and maintain 100% home ownership.
- **Unlike the others, though, you can choose to pay the interest on a monthly basis.**
- In fact, you can choose to pay anything from £25 per month up to the full amount of interest due. Any interest you do not pay will accrue as with the Roll-up Lifetime Mortgage.
- **You can decide how long you want to pay interest for (for example, 1 year, 5 years or even up to the lifetime of the loan).**
- If you decide you don't want to make monthly payments any more, you can stop and the plan will change to a regular Roll-Up Lifetime Mortgage.

This is a lifetime mortgage. To understand the features and risk, ask for a personalised illustration.



“I wanted to pay my debts and then create a little area of my garden that looked pretty and could be enjoyed in all seasons. I did just that, thanks a million.”

How can equity release help you?

1. You may want to use the money to take that holiday you've always dreamed of, perhaps visiting family that you haven't seen for years.
2. You may want to buy a new, more reliable car to help you get around.
3. You may want to use the money you release to make up the shortfall that retirement sometimes creates.
4. You may want to consider releasing equity to help make home improvements, such as putting up a conservatory, landscaping the garden, installing a more modern kitchen or extending the home to accommodate more frequent family visits.
5. Equity release can be used to pay off your mortgage or credit card bills, meaning you can reduce your monthly outgoings and free up cash for more rewarding expenditure.
6. Like more and more people you may want to release equity to help support your family, children or grandchildren as and when they need the help instead of the more traditional route of waiting to leave an inheritance. The advantage of this is that you can see and enjoy the help you have provided.
7. You may want to use equity release as a tool in a more comprehensive inheritance tax strategy.

Points To Consider

- Releasing equity from your home could affect your entitlement to means-tested state benefits. An adviser will be able to explain exactly what this means to you personally and can then provide advice accordingly. A Drawdown Lifetime Mortgage can often be used to ensure you don't jeopardise your benefits.
- If you invest the money you release then your tax position could be affected and the investment return may be less than the interest charged on the equity released.
- Releasing equity will reduce the value of your estate over time. All plans recommended by responsible lenders come with a No Negative Equity Guarantee ensuring you will never owe more than the value of your home. Some plans allow you to guarantee an inheritance to protect your estate – see page 8 for a Protected Equity Guarantee example.
- It's important to remember that equity release does not usually come with monthly payments, meaning you can't face repossession for missing payments. Even with the interest-only plan, if you do miss payments, or it is no longer affordable, it will convert to a Roll-up Lifetime Mortgage leaving you with no monthly repayments.

“I felt such a great relief when I finally cleared my mortgage and credit cards. Debt payments are no more and I no longer fear the post.”



Equity release examples

Roll Up Lifetime Mortgage Example:

- Sally was 55, her husband John was 62 and their house was worth £200,000.
- They borrowed £25,000 to pay off bills and buy a car.
- The interest rate was fixed for life and the interest added to the loan each year.
- **Sally outlived her husband but died 20 years after taking out the equity release plan.**
- Their house has increased in value at a yearly rate of 2.85% (only half the average yearly house price growth for the years 1990-2010).
- **Their house is now worth £350,846.**
- They made no monthly repayments during their lifetime and so the interest has rolled up.
- **Sally passed away and their estate sold the property. They repaid the equity release provider the £25,000 plus the interest and the rest of the money went to their family as per the demands of their will.**

Drawdown Lifetime Mortgage Example:

- Michael was 71, his wife Mary was 69 and their house was worth £400,000.
- **They borrowed £40,000 to gift to family using equity release.**
- They were able to reserve £20,000 in a drawdown facility to call upon in the future if needed.
- **They received an interest rate that was fixed for life.**
- After 5 years, they drew £5000 from their draw-down reserve and when Michael died 10 years after taking the plan out, Mary drew £15,000.
- **Mary remained in the house until she passed away 15 years after taking out the plan.**
- Their house has increased in value at a yearly rate of 2.85% (only half the average yearly house price growth for the years 1990-2010) and was worth £609,711 when Mary died.
- **They made no monthly repayments during their lifetime and the interest was only ever charged on the money after it was actually drawn.**
- Their estate sold the property and repaid the equity release provider the money borrowed plus interest. The money remaining went to the estate as per the demands of Mary and Michael's will.

Flexible Repayment Example:

- James was a 62 year old widower.
- **James's house was worth £300,000.**
- James released £30,000 from his property and chose the flexible equity plan where he was able to repay up to 10% of the plan every year.
- **As James was still working for the first five years, he made payments of £1000 per year.**
- James then reduced these payments to £500 a year for the next five years as he was only working part-time.
- **As James gave up work and his children moved further away, he decided to move to a smaller property and repay the plan in full.**
- James was able to release £30,000 when he needed it, remain in his property for as long as he wanted to and keep the size of the plan down by making regular repayments.

* Please note that this is only an example using half the previous years' actual growth as a comparison and the value of your house could go down or not increase at the same rate as it previously had. Responsible lenders only recommend plans that guarantee you will never owe more than the value of your home. The source for the historic growth figures is the Nationwide House Price Index at 5.7%.