

# Equity Release Fact Sheet



## INTRODUCTION

### What is Equity Release?

Equity Release is the process of unlocking the money (Equity) tied up in your home. The equity is the value of the property less any mortgage or loans secured against it.

### WHY RELEASE EQUITY?

The main reasons for releasing equity are to

- raise capital (a cash sum) for expenditure, which is either essential or to fund some event or holidays, etc.
- generate an (additional) income, usually in retirement, or
- a combination of both.

### TYPES OF EQUITY RELEASE

There are 5 main methods to release equity:

- **Downsizing** – Selling your property in order to buy a cheaper one in which to live, keeping the difference.
- **Selling and Renting** – Selling your property, and moving into rented accommodation and keeping the sale proceeds.
- **Traditional Mortgages** – Borrow against the value of your property, paying interest to the lender and repaying the amount borrowed at the end of the term of the loan.
- **Lifetime Mortgages** – Borrowing against the value of your property, but not paying any interest or capital to the lender, until the property is sold, whilst enjoying a guarantee that you can live in the property for the rest of your life.
- **Home Reversion Schemes** – Sell part or the whole value of your property to a Home Reversion company, whilst enjoying a guarantee that you can live in the property for the rest of your life.

### Downsizing

The decision to sell and move is not always an easy one. Most property owners are familiar with this process; however, during our working lifetime we sell a smaller property to buy a larger home, i.e. moving up the property ladder. Downsizing is going the other way. You need to consider the following:

- The costs of selling and buying; Estate Agents and Solicitors Fees, Stamp Duty, Survey Fees and the physical costs of moving.
- Have you lived in the property a long time and have many memories, particularly of family growing up?
- Are your family and friends nearby – What would a new neighbourhood be like?
- Are amenities, shops, local parks and public transport nearby?
- Have you spent time and money on your property to get it 'right' for you?
- A smaller property may have lower costs of upkeep, heating, lighting and possibly a smaller garden, which may be easier to maintain. A flat, of course, would have no garden to upkeep.
- Will you need to spend money decorating the new property?
- The potential 'hassle' of selling and buying at the same time?
- Of course, if you need capital to make home improvements this may not be the option for you.

### Selling and Renting

Having owned your own property is renting the right option for you? You will need to consider the following:

- All the issues detailed above under 'Downsizing' except, of course, you only have to sell with the inherent costs and negotiate rented accommodation.
- Will you need to spend money decorating the new property?
- Will your landlord permit you to make any necessary alterations if your needs change?
- Of course, if you need capital to make home improvements this may not be the option for you.
- Will the money you have received from your property, together with your income be sufficient to pay the rent and your living costs for the rest of your life?

### Arrange a Mortgage

Whilst this is a method of raising capital, paying the monthly mortgage interest is another cost, which increases substantially if you also pay back the capital you have borrowed. Additionally, interest rates, although low now, could increase in the future making the payments much more expensive.

## Lifetime Mortgages

Using a Lifetime Mortgage does mean that the money raised is yours to spend; however, the amount you owe increases in the future as the interest is added to the debt. This will have to be repaid from the value of your property, when sold. Therefore, your beneficiaries will not receive the full value of your property as the outstanding mortgage amount must be paid first. You need to consider:

- Will property values increase in the future by more than the escalating debt owed? Or will they fall making the difference between the debt and the value even smaller or resulting in the debt being more than the value (i.e. negative equity)?
- In view of the risk described above, you need to ensure you use a lender that guarantees you can live in the property for the rest of your life under any circumstances.
- As the interest is added to the amount borrowed the lenders will not lend as much as on normal mortgages. Will the amount you can borrow be sufficient? The amount you can borrow will depend on age.
- Should you take out a Fixed Rate or Variable Rate Lifetime Mortgage?
- It is possible to agree a Lifetime Mortgage for the maximum amount but start with the minimum you require, with the facility to increase your borrowing up to the agreed maximum subject to the terms and conditions. Therefore, the interest added at the start is lower than if you borrowed the maximum at outset.

## Home Reversion Schemes

These schemes are not mortgages. To raise a lump sum you sell part of (e.g. one third, a half etc) or the whole of your property and continue to live in it under an agreement with the Home Reversion company. You will need to pay rent; however, this is usually a nominal amount described as a 'peppercorn' rent. With these schemes you need to consider the following:

- Will property values increase in the future meaning that you have sold an asset (or part of it) that is more valuable? Or will they fall which may mean that if you sell only part of your home the remaining part has fallen in value?
- As you have sold your property, you need to ensure you use a company that guarantees you can live in the property for the rest of your life under any circumstances.
- Although you do not own the property you will be required under the tenancy agreement to look after and maintain the property as if you were the owner and continue to insure the building, paying the insurance premiums.
- Your beneficiaries will not benefit from the property value to the extent of the proportion you have sold.
- The amount you receive will be less than the full value as the Home Reversion company will not be able to sell the property and have access to their investment until you either move into a Residential/Nursing Home or on death. They take the risk on whether the value falls and will be rewarded if the value rises. Meanwhile, they are not able to earn any interest on the investment as it is tied up in the property.
- If you only sell part of your property initially (say half) it is possible to sell the other half later to raise an additional amount; however, the second sale must be to the existing Home Reversion company on the terms they have available at the time.

## Warnings

Equity release, particularly Lifetime Mortgages and Home Reversion Schemes should be considered only as a 'last resort'. They are useful in the right circumstance; however, once you have entered into such a scheme it is very difficult, if not impossible to reverse the situation. You may need to first consider whether family can help; but they need to be careful – arranging a mortgage on their own property can have financial implications for them.

If you need money for Home Improvements you should first check whether Local Authority Grants are available.

Raising money by equity release could affect any State Benefits you are receiving.

**This is both a complex area of finance as well as a serious decision to make. Therefore, Independent Financial Advice from an appropriately qualified adviser is essential. Advisers at Clairville York Ltd hold the necessary qualifications and have the experience to provide you with clear unbiased advice.**

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No responsibility can be accepted for the accuracy of the information in this facts sheet and no action should be taken in reliance on it without advice.  
Please remember that past performance is not necessarily a guide to future returns.  
The value of units and the income from them may fall, as well as rise. Investors may not get back the amount originally invested

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