

# wealth preservation equity release schemes

## What is an Equity Release Scheme?

Usually, the phrase Equity Release (ER) is used when referring to either a Home Reversion or a Lifetime Mortgage (Sale and Rent Back Schemes are considered later in this guide). All such Equity Release Schemes (ERS) will share common features such as:

- A lower age limit – you must be at least 55 before you can apply
- You will have the right to remain in your home for life
- You will receive a cash lump sum or an income for life, or a combination of these, from the ER company
- No repayments towards the equity released need be made until your home is sold (in the event of your death or moving into long-term care)
- The amount owed to the ER company will never exceed the value of your home (which is commonly called the **no negative equity guarantee**), although this provision needs to be specifically confirmed with the company.

## Are there any Alternatives to Equity Release?

**Consider moving to a cheaper property:** If you sold your property for £150,000 and bought a replacement property for £100,000 then you have released capital of £50,000 (less the costs involved with moving) whilst still retaining possession of your home to pass to your chosen beneficiaries.

**Use existing savings:** Rather than using up part of your home, spend capital

savings (where available).

**Approach family members:** If you want to release £30,000 from your property and have three children, might it be possible for your children to pay you £10,000 each and acquire an interest in your home (by way of mortgage or co-ownership)? If this is a viable option, you should still seek legal advice before proceeding down this route.

If you require additional income, **apply for all state benefits to which you may be entitled** (such as Attendance Allowance, Pension Credit, Council Tax Benefit etc). If you already receive such benefits then be aware that taking out an ERS may affect your entitlement.

**Contact Age Concern:** ([www.ageconcern.org.uk](http://www.ageconcern.org.uk)). Their factsheet 13 provides information on Grants which may be available to provide funds to improve your home.

**Contact the Home Improvement Trust** ([www.hitrust.org](http://www.hitrust.org)) which helps arrange low cost advances and provides information on Government Grants for those looking to fund works on their home.

**Consider taking out an ordinary personal loan or interest-only mortgage:** These products usually involve variable rates of interest so be certain that you would still be able to afford the monthly payments if interest rates increased significantly.

**Warning:** A recent alternative to ERS is the *Sale and Rent Back Scheme* which involves selling your property at its full value to an unconnected third party who would then rent the property back to you. These are fraught with danger and should not be considered without professional advice.

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## Where do I begin looking for an Equity Release Company?

A good starting point would be to contact an Independent Financial Adviser (IFA) who has experience of ERS or contact the campaign for Safe Home Income Plans (SHIP) ([www.ship-ltd.org](http://www.ship-ltd.org)) who can provide a list of their members.

Whilst SHIP members abide by a code of practice which includes the right for you to choose your solicitor, a duty to state in clear terms the cost of the ERS, and to include the **no negative equity guarantee**, this does not mean the scheme will be the most suitable for you. At Buckles we have close connections with IFAs who can advise you appropriately, and their additional fee will more than likely be worthwhile in the long-term.

## What's the difference between a Home Reversion and a Lifetime Mortgage?

**Home Reversion:** You sell a percentage of your home for example, 25% or 100% to the ER company. The company will not pay you the full market value for that share (in fact, the figure is likely to be in the region of one third of its actual value) on the basis that you will be allowed to remain in the property rent free for the rest of your lifetime.

In the event of your death or moving into long-term care, the property is sold and the company receives its specified percentage, with your estate receiving the remainder.

**Advantage:** You know exactly what the ER company will receive in the future in percentage terms although the actual amount in pounds and pence will depend

on property prices when your home is sold.

**Disadvantage:** If you were to die or move into care shortly after having entered into the scheme then you would have sold a share of your home for a fraction of its true value. The ER company will arrange the sale of your home.

**Lifetime Mortgage:** As the name suggests, this is a mortgage and so the ER company will lend you money. You remain the legal owner of your home but the debt owed to the ER company is noted on your deeds.

The principal difference between this and a **standard** mortgage is that no monthly payments are made; instead, the interest is **rolled-up** each month together with the amount of the initial loan. In the event of your death or moving into long-term care your home will be sold and the mortgage debt, plus accrued interest, is repaid. The monies left over, if any, will be paid to you or your estate.

As with standard mortgages, different companies offer different interest rates for Lifetime Mortgages so do shop around or ask your IFA to do so for you. Variable rates should be avoided since a sharp rate increase could considerably increase the amount of the mortgage debt in a relatively short space of time. A fixed rate of interest is preferable, although some capped rates available are variable but cannot exceed a stated rate. Care should be taken to examine the wording of any such capped rate prior to committing yourself.

**Advantage:** You have absolute certainty (assuming a fixed rate of interest is selected) what you will owe the ER company at any given time in the future. In the event of

your death, shortly after taking out the scheme, you are unlikely to have lost out quite so much as you would have with a Home Reversion.

**Disadvantage:** The effect of compound interest means you will be paying interest upon interest for years to come. To explain, in the first year of the Lifetime Mortgage you will only be paying interest on the amount you borrowed; in the second year of the scheme you will be paying interest on the amount you borrowed and on the interest charged in year one because this was not actually repaid by you but added to the mortgage debt.

For example, if a couple borrow £20,000 at age 60 with a fixed interest rate of 7%, they will owe almost £40,000 at age 70 and £80,000 at age 80, a doubling of the debt every 10 years.

If house prices increase during that period then the negative effect of compound interest will be offset but house prices may remain static or even fall.

### **What happens if the mortgage debt exceeds the value of my home?**

Any Lifetime Mortgage taken out by you should state that not only is there the no negative equity guarantee, but also the ER company do not have the right to sell your home in the event that the amount outstanding on the mortgage exceeds the value of the property. This protects you in the event of a sharp decline in property prices. Check with the ER company these points at the very outset to ensure you are protected.

Even the no negative equity guarantee can

be problematic. Who would pay the estate agents and legal fees in the event of a sale where the mortgage debt exceeds the property value? Some ER companies can be very ambiguous on this point. Whilst the no negative equity guarantee may never apply, having this additional protection could save you or your estate thousands of pounds.

### **Will I be able to move house?**

Yes, in most cases. If you want to move to a cheaper property then the ER company will insist on a partial repayment from you (possibly including an early repayment charge) from the surplus monies released in the event of such a sale.

If you have a Lifetime Mortgage then the effect of compound interest, and possibly falling house prices, may mean you are restricted in where you can afford to buy. In any move, the ER company will want to approve the choice of the new property, and you will have to pay for all survey fees, legal fees and moving costs etc.

### **What costs are involved in taking out an Equity Release Scheme?**

In nearly all instances you will need to pay a non-refundable survey/valuation fee up front plus an administration fee. If you take advice from an IFA then a fee will be due to them. This additional cost can benefit you greatly in the long-term if it means the most suitable scheme is selected for you. There will be legal fees payable (plus VAT) which will differ between firms of solicitors. Ask for details up front, and always ensure the solicitor concerned has experience in ERS.

Some ER companies charge a completion fee, which is an additional fee of several



hundreds of pounds added to the debt you owe them once completion has taken place. Whilst a completion fee will not necessarily alter the amount of the cheque you receive, it will alter the amount you owe the company over the years.

## How long will all of this take to finalise?

As with the sale and purchase of a house, it is difficult to estimate precisely. A fair estimate is approximately four months from when you first look into which scheme to select. Clearly, you should not spend the money in advance of the completion date.

To help move matters along, you should instruct your solicitor in good time and provide proof of your identity (such as a passport) and address (such as a Council

Tax bill); proof of household insurance; and your title deeds, or if you have an existing mortgage then a contact address and mortgage account number for the mortgage company.

## Is it all doom and gloom?

Absolutely not – Equity Release has its place and can be very beneficial to many people. The information set out above should not be taken as a warning against applying for such a scheme. Rather, it is intended to give a little more detail on the subject to allow an informed choice to be made.

This guide has been prepared for general interest and it is important to obtain professional advice on specific issues. We are happy to discuss any legal advice you require on these topics.

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## Buckles Solicitors LLP – key contacts

### Duncan Jackson

01733 888874  
duncan.jackson@buckles-law.co.uk

### Stephen Duffy

01733 888879  
stephen.duffy@buckles-law.co.uk

### Peterborough

Grant House  
101 Bourges Boulevard  
Peterborough  
PE1 1NG

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### Charles Applegate

01780 484572  
charles.applegate@buckles-law.co.uk

### Stamford

3 St. Mary's Hill  
Stamford  
PE9 2DW

