Prospect Mortgage Services

expert advice - professional service

What you need to know…

Equity Release

*Offering **Independent** Mortgage Advice*

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WHAT IS EQUITY RELEASE?

Equity Release can give eligible homeowners aged 55 or older access to some of the money tied up in the value of their property. These plans could allow you to take cash from the value of your home, without having to move out. If you own your property outright or if your property's worth more than any loans you have secured against it, then you've more than likely got equity tied up in your home.

There are two types of equity release; **Lifetime Mortgages and Home Reversion plans**. Both of these are regulated by the Financial Conduct Authority. By using an equity release product, a home owner can draw a lump sum or regular smaller sums from the value of their home, while remaining in their home.

Equity release can play a crucial role in retirement funding and the flexibility and safeguards, which are built into plans that comply with the Equity Release Council product standards, enable thousands of home owners every year to tap safely in to their housing wealth without necessarily having to worry about making monthly repayments.

Here are some of the reasons why customers release money from their home:

- **Adapting your home** to enable independent living.
- **Renovating or refurbishing**, from a new kitchen to a new roof.
- **Topping up retirement income** – making life more comfortable.
- **Paying for health care** – one off private medical bills or ongoing care in the home.
- **Helping children and grandchildren** with house deposits, student fees, weddings, and other major events.
- **Inheritance Tax Planning** – managing your estate, wealth and tax planning, and leaving a living inheritance.
- **Paying off an outstanding mortgage** – including the shortfall on an interest-only mortgage
- **Enjoying life** – leisure interests, buying a new car, taking a holiday or visiting relatives abroad.

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WHO MIGHT QUALIFY?

You must be a homeowner aged 55 or over – If it is a joint application you must both be aged 55 or over to apply.

- **You live permanently in your home** – the property must be your main residence and you must not leave it unoccupied for more than six months at any one time.
- **You are mortgage-free or only have a small mortgage** – your mortgage will have to be paid off as a condition of taking out a lifetime mortgage. You can do this from the amount you borrow.
- **Your property is in the UK is worth at least £70,000**.
- **You want to borrow at least £15,000** – and the value of your property makes this possible
- **You own a home that's freehold.**
- If you own a home that is **leasehold** then usually there will be a **minimum requirement on the remaining term on the lease.**

If you are thinking of taking out an equity release plan then:

- Find out as much as you can about your options and weigh up the advantages and disadvantages fully before you decide if equity release is right for you.
- Take steps to understand what's involved and talk through your options with a qualified Adviser.
- Determine what effects Equity Release might have on your state benefits and tax.
- Talk it over with your family in advance to ensure you are choosing a plan to fit your needs.

Part of a customer's choice will be over the type of plan required. In the modern equity release market there are a range of products to choose from, with new and innovative products being created regularly. This means that whatever your equity release needs, there is likely to be an equity release plan available to meet them. To provide you with confidence in liaising with us regarding Equity Release advice Prospect Mortgage Services are members of the Equity Release Council

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TYPES OF EQUITY RELEASE

Lifetime mortgages

A Lifetime mortgage involves taking a type of mortgage which does not require monthly repayments, although with some plans rather than roll up the interest you can choose to make monthly repayments if you wish.

You retain ownership of your home and, if you have chosen not to have monthly payments, interest on the loan is rolled up (compounded). If you choose to make monthly payments (full or part) the remaining balance will be adjusted accordingly. The loan and any rolled up interest is repaid by your estate when you either die or move into long term care. If you are part of a couple, the repayment is not made until the last remaining person living in the home either dies or moves into care, meaning that both you and your partner are free to live in your home for the rest of your lives.

If you take out a Lifetime Mortgage, you can choose to receive your funds in a lump sum or in smaller, regular amounts. There is also an option available to increase the amount you have borrowed as and when you want to, up to the maximum limit agreed with the plan provider.

You can also elect to protect some of the value of your property as an inheritance for your family, meaning that you can benefit from releasing equity while still retaining something to pass on to your children. Some people may be able to release larger lump sums due to impaired health or may prefer to make monthly repayment in part, or in full, with an option to roll up at a later date if the monthly repayments became unaffordable.

Home Reversion Plan

A Home Reversion Plan also allows you to access all or part of the value of your property while retaining the right to remain in your property, rent free, for the rest of your life.

With a Home Reversion product the provider will purchase all or part of your house taking into account your age and your health and will provide you with a tax free cash lump sum (or regular payments) and a lifetime lease, guaranteeing you the right to stay in your property rent-free for the rest of your life. There is no day-to-day interference and no restrictions on treating the house exactly as before; as a private home to live in freely.

The percentage you retain in your property will always remain the same regardless of the change in property values, unless you decide to take further cash releases. At the end of the plan your property is sold and the sale proceeds are shared according to the remaining proportions of ownership.

Due to the higher risk involved in this type of plan Prospect Mortgage Services do not offer advice in purchasing Home Reversion Plan products however we are able to refer you to an alternative specialist if you wish to take advantage of one of these plans.

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HOW MUCH CAN YOU BORROW?

This usually depends on three things:

1. Your age (usually based on the age of the youngest borrower for joint lifetime mortgages).
2. The plan you choose.
3. The value of your home.

Getting your home valued

As the amount you can borrow depends on the value of your home, the provider will arrange for a valuer to work out how much your home is worth.

It's possible that the valuer may recommend a specialist report for your property. If they do, the provider may need to see this report before they can continue with your application.

If the report shows that your home needs essential repairs, you may need to get this work completed before you can move forward with your application. The provider may agree to release the money to you to get the work done, if you agree to it being completed within a certain time frame. However, this isn't guaranteed, and sometimes a provider will not be able to release any money until the work is completed, so you would have to pay for this yourself in this situation before you take out the lifetime mortgage. The valuer may need to re-inspect your home after the work has been done.

Your financial adviser will be able to talk you through all of the things that you need to consider and anything else that could be relevant to your personal circumstances

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LIFETIME MORTGAGES – FEATURES & CONDITIONS

A lifetime mortgage is a long-term commitment which can only be made with financial advice, so it's important to understand what it means for you personally. We have outlined some of the benefits of taking a lifetime mortgage and the types of things you need to think about before releasing equity from your home.

What are the benefits?

- You continue to own and live in your home.
- There is a fixed rate of interest throughout the term of your mortgage.
- You receive a cash lump sum and could have the possibility of releasing further cash in the future.
- Some providers have a 'no negative equity' guarantee, which means that you or your estate will never have to pay back more than your property is sold for.
- Some providers offer an inheritance guarantee which ensures you can leave an inheritance.
- Often, you can choose to make voluntary partial repayments to pay back some of the money you've borrowed.

Things to consider

- If you have money in pensions, savings or investments it's worth considering if these are a better way to fund future plans. There are costs involved in freeing up cash through a lifetime mortgage and reviewing alternative options with your financial adviser should be a key part of your decision-making process.
- Another way to release the value locked away in your home is to either sell it or move to a smaller property. But if you want to stay in your current home and avoid the upheaval and costs of moving, then a lifetime mortgage could be a viable option.
- Interest is added annually on the amount you've borrowed, and any interest already added. This method of charging interest is known as compound interest and means the amount you owe increases quickly.
- This is a lifetime commitment. If you choose to fully repay the plan early, you'll have to repay the loan and the interest, and there may be an early repayment charge to pay.
- The amount of inheritance you can leave will be reduced, possibly to nothing. However, some providers offer an inheritance guarantee to help with this.
- Releasing equity from your home may affect your tax position. It may also affect your eligibility for certain welfare benefit such as council tax benefits, pension credit and certain health benefits.

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TYPICAL FEES

To set up your lifetime mortgage, you'll have to pay a number of fees. These range from fees we'll charge you, like the arrangement and valuation fees, to fees charged by legal advisers.

Arrangement fee

This fee covers the cost of setting up a lifetime mortgage and includes all the provider's legal fees and disbursements. The provider's arrangement fee will be included in your personalised illustration.

Valuation fee

You'll need to pay a fee for an independent valuation of your home. The cost will often depend on the estimated value of your home.

Re-inspection fee

A provider will charge a re-inspection fee if they need to send a valuer out to inspect your home again. This may be necessary if you've had to carry out essential repairs.

Legal fees

It's a requirement for you to receive legal advice before a provider can provide you with a lifetime mortgage so you must appoint a legal adviser to act on your behalf. Solicitors who are members of The National Solicitors Network will charge about £500 plus VAT for a standard case. Solicitors outside of this network may charge differently.

Depending on your circumstances, there could be occasions when you may have to pay for extra legal services such as where your home is unregistered or if your home is leasehold. Your financial adviser will be able to give you the names of suitable solicitors. Your solicitor will be able to confirm if and when extra charges may be payable to take account of your needs.

Fees for making changes to your plan

There may be a time where you decide you need to borrow more money, move home or even add or remove someone from your lifetime mortgage. If this happens there will be fees involved.

WHAT ABOUT REPAYING YOUR MORTGAGE EARLY?

As the name suggests, your lifetime mortgage is not designed to be repaid in full before you (& your partner if you have a joint mortgage) die or move permanently into long-term care. However, sometimes your circumstances can change, and you might want to repay your loan in full before then.

Early repayment charges

If you would like to repay your loan in full before you die or go into long-term care an early repayment charge is likely to be payable. These can vary so ensure you have considered this carefully.

…SO, WHAT HAPPENS WHEN I DIE OR MOVE INTO CARE?

Moving into long term care

Provider's definitions of long-term care vary so check the details of your specific arrangement. Usually the definition is where you need permanent care from another person or other people, either to help you to perform Activities of Daily Living (ADLs), or because you're suffering from Dementia.

Usually you won't have to pay an early repayment charge if you have Dementia or are unable to perform ADLs and have permanently left your home to receive care. If these criteria are not met and you have permanently left your home, then you may have to pay an early repayment charge.

What happens to my lifetime mortgage when I die?

The lifetime mortgage is designed to be paid in full when you, and if held jointly, your partner dies or goes into long-term care. The people dealing with your estate will be given a reasonable length of time to repay the loan. This is often about 12 months. If after this time, the people dealing with your estate haven't repaid the loan it is classed as a default and a provider will usually reserve the right to repossess the property to settle the outstanding loan amount.

The lifetime mortgage is normally repaid through the sale of the property but that isn't always necessary if there are other means by which the funds can be raised to repay the loan.

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YOUR STEP-BY-STEP GUIDE MOVING FORWARD

While timings can vary, typically the process of talking out a lifetime mortgage takes 8-12 weeks from your instruction and application submission.

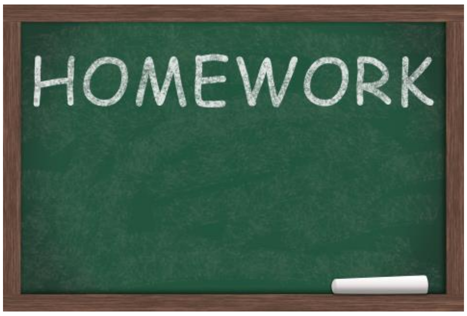
A lifetime mortgage is a popular type of equity release. It's a long-term loan which is secured on your property. The amount you can borrow depends on things such as your age and the value of your property. You don't usually have to make any repayments before the end of the plan. Instead, each year interest is added to both the loan and any previous interest that's already built up, which will quickly increase the amount owed. The loan and the interest are repaid in full, usually from the sale of the property, when you die or have to go into long-term care, subject to the provider's terms and conditions.

A lifetime mortgage will always reduce the inheritance you can leave and may affect your tax position and eligibility for some welfare benefits.

A 10-point guide from first enquiry to receiving your money and beyond

1. Make sure you're eligible

- You must be 55 or over (both to be over 55 in a joint application)
- You must be a homeowner and your property must be worth at least £70k with little or no mortgage outstanding. Any outstanding mortgage on the property will need to be repaid either before you apply for a lifetime mortgage or from the money you release.
- There are other eligibility criteria which may vary from provider to provider – your adviser can help you here.



2. Do your homework

- Think about how much you need, what you want the money for, and make sure you have an idea of the current value of your home.
- Gather together bank statements, details of income, outgoings and any state benefit you may receive
- Make a list of questions you'll want to ask your adviser

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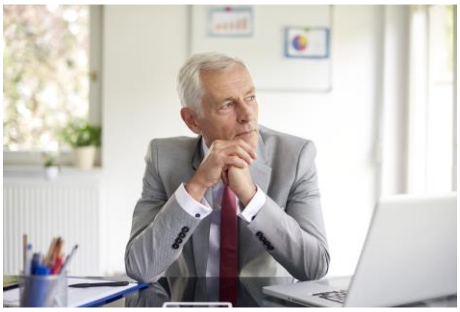
3. Meet with your adviser

- After talking everything through, your adviser will make a recommendation based on your wants, needs and future plans
- You'll receive a personalised illustration – this will show what fees are payable, how interest is applied and the circumstances in which early repayment charges are applicable – make sure you discuss all of these with your adviser.

4. Get the family involved

- Your decision will have an impact on them too
- You might want to ask family members to attend your adviser meeting with you.



5. Make your mind up

- Arrange a second meeting with your adviser
- This meeting is to confirm you want to go ahead with the application. It gives you another opportunity to address any questions that you may have or to go through outstanding paperwork with your adviser.
- It will also allow you to talk through the next steps – what will happen at the valuation stage and where the solicitors fit into the process.

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6. Application time

- Your adviser will help you with the form and arrange and independent valuation of your home. You may have to pay for this up front.

7. Valuation and survey work

- If any urgent repairs are needed you may have to get these done as a condition of your loan.

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8. Talk to a solicitor

- Equity release is a contractual agreement, so you need to discuss it with a solicitor. Your adviser can help you arrange this.
- The time taken by solicitors can vary. There are a number of factors which can influence it, such as how quickly you require your money, how familiar you are with lifetime mortgages, and whether there are any property title or matrimonial issues which need to be resolved. You will be responsible for paying your own legal fees.

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9. Your money arrives

- The remaining funds are usually then transferred to your bank account.

10. A follow-up meeting

- Talk to your adviser to make sure the rest of your finances still fit your needs
- You might want to arrange a plan for the future meeting to review wills and power of attorney.

Get the ball rolling – speak to a Prospect Mortgage Services Adviser to check your eligibility and discuss the best way forward for you.

It is important to consider the benefits, costs and risks before deciding whether a lifetime mortgage is right for you.

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