

THE SYMMONDS DE LACEY GUIDE TO

Later Life Lending & Equity Release

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SYMMONDS DE LACEY
FINANCIAL SERVICES

Introduction

For people over the age of 55, taking out a mortgage is more common than ever before.

Traditionally, people would aim to repay a mortgage before the age of 65 (the 'normal retirement age').

However, with people now working and living longer than ever before, changing lifestyles and attitudes mean that later life lending can play a key role in financial planning.

There are many reasons to consider later life lending. It could be to fund retirement, help family, pay off an existing mortgage, restructure finances, holidays, cars and home improvements to name a few.

It's common for people to think that they can't get a mortgage if they are over 55 or to think that Equity Release is the only route.

The fact is there has been much innovation in the later life lending sector with many different mortgages options available.

The most important thing is to select the right option that fits your circumstances, requirements and future plans.

What are the options?

When considering later life lending, there are essentially 3 options:

- 1 Standard Mortgage**
- 2 Retirement Interest Only (RIO) Mortgage**
- 3 Equity Release**



Standard Mortgage

In recent years, many lenders have extended their maximum age with average being 70-75. However, there are some that will go to age 80-90+.

With this approach, the lender will look at income and expenditure to assess affordability in the usual way.

Key decisions around budget, product, repayment method and term will be made when selecting a product.

After completion, the agreed monthly payment will be made until the end of the mortgage term. At this point, the mortgage would either be repaid in full through monthly payments (capital and interest) or by the elected repayment vehicle (interest only).

Retirement Interest Only (RIO) Mortgage

The RIO Mortgage is designed for people who plan to stay in their home until they pass or move into long term care.

The lender will assess affordability in a similar way to a standard mortgage. One of the key differences may be for the lender to consider the interest only payment (as opposed to capital and interest) which could make the mortgage more achievable.

Another key difference is that the mortgage will not have a term (end date) which is similar to a lifetime mortgage. Interest only payments will be made until death or moving into long term care. At this point, the property will be sold and the mortgage repaid.

Equity Release

Equity release is another option designed for people who would like to stay in their homes until they either pass or move into long term care.

This approach is relevant for people who don't want to make monthly payment (or only partial payments) and/or don't meet the affordability requirements for the other options.

There are difference schemes available, however ultimately the amount borrowed is repaid when the house is sold.

One of the key considerations with this approach is the effect it can have on the value of a person's estate when the loan is repaid.

Depending on how the equity release product is structured, the equity in the property can be reduced if no (or partial) repayments are made.

Equity release includes Lifetime Mortgages and Home Reversion Schemes. We can advise and arrange Lifetime Mortgages and will refer to an approved specialist for Home Reversion schemes.

A Guide To Equity Release

How does it work?

There are difference schemes available, however ultimately the amount borrowed is repaid when the house is sold.

What can the money be used for?

The money raised can be used for anything you want. It could be to help fund retirement, gift to family, pay off an existing mortgage, restructure finances, holidays, cars, home improvements or funding a hobby.

Each individual person's reasons may vary, but there are no restrictions.

Is it safe?

The products available today are not the products that left many homeowners in desperate situations in the 1980's.

We only work with Lenders who are members of the Equity Release Council. This means that they follow a strict code of conduct to ensure that borrowers will never fall into negative equity or owe more than their property is worth.

The history

Equity Release products were first introduced in the 1960's as a simple way to borrow for everyday living costs when the average property was worth £4000.

It was in the 1980's that the more infamous 'Home Income Plans' were brought in allowing home owners to take out an interest only mortgage and buy an annuity or investment bond alongside.

These were designed to pay off the monthly interest rate and provide additional income to the home-owner. However, the state of the British economy meant that rising interest rates, fixed annuities and falling house prices saw many homeowners with increasing monthly arrears and negative equity. Moving was impossible and many left debt for their family to pay.

The horrendous situation many families found themselves in led to the foundation of the Equity Release Council (formally known as Safe Home Income Plans). Members follow a strict code of conduct which ensures that home-owners receive clear information that explains the terms and conditions, costs, risk and benefits of each plan.

Am I eligible?

Eligibility varies for each Lender, however basic criteria requires the youngest home owner to be aged 55 or over (although some schemes may require a higher age), the house to be worth at least £70,000 and in good condition. The property must be situated in England, Scotland or Wales and be your main residence.

How much can I borrow?

This depends on your circumstances including how old the youngest home-owner is and how much your home is valued at.



Will I be charged interest?

You may be charged interest – whether the interest 'rolls up' over the term of the mortgage or you pay off the interest each month depends on your circumstances and which product you decide to take out.

Do I pay rent to live in the house?

No. You will not be required to pay rent to remain in your house.

I still have a mortgage on my property

This doesn't exclude you from being eligible for equity release, but you will need to repay the existing mortgage in full. You can use the proceeds from your equity release to do this.

How does equity release affect my partner?

An equity release plan can be single or joint. A joint policy would mean that if one Spouse / Partner were to die, the plan would continue the same and the surviving Spouse / Partner would not be required to move.

However, if you decide to take out a single plan or marry/co-habit after, the person who resides with you may not be entitled to remain in the house were you to die. Unless they can repay the amount required, the house would be sold to repay the loan. We advise that if you and your Spouse/Partner live together, you consider a joint plan to ensure the security of the surviving Spouse/Partner.

Will this affect my children's inheritance?

Yes. Taking out an equity release product allows you to access the money you have built up in your house without the need to move or downsize. The proceeds from the sale of your house on death or when you enter long term care are used to repay the loan amount borrowed and therefore cannot form part of your children's inheritance. This isn't to say however that you are unable to pass any inheritance with equity release as some products allow you to ringfence a percentage of your home. We can look at and discuss with you all the options available to find the right solution for your circumstances.

What if I want to repay the loan early?

As equity release products are designed to be long term options, repaying your loan early could involve expensive 'Early Repayment Charges.' However, please advise us before hand if you think you may want to pay the loan off early, as there are many products on the market and not all have an early repayment charge attached to them. If you decide to take out a Home Reversion Plan you would be required to sell your house to repay the loan which could leave you with too little money to purchase somewhere else although these plans are mostly portable to new properties that are deemed acceptable by the lender.

The Process

1

RESEARCH

Equity Release will not suit everyone and it may be that there are other options more suitable for your circumstances. We encourage you to research the market first before making any decisions.

2

FAMILY

We encourage all our customers to talk to their family members or those who might be affected in the future if you decided to take out an equity release policy.

3

ADVISER

As your Adviser, we will discuss all the options available to you. We will take the time to help you understand the products available and explain all the risks and benefits of each product.

4

APPLY

When you have decided on your product, we will complete and send the application to your chosen lender. You should have your Solicitor's details ready and a cheque for the valuation fee (if applicable).

5

VALUATION

The independent valuation will take place at a convenient time for you and ensures that the offer made by the lender for the amount you can borrow reflects the value of your home.

6

SOLICITORS

Where the Lender is a member of the Equity Release Council, you are required to discuss your product with your Solicitors to ensure that you fully understand the implications, risks and benefits.

7

OFFER

The Lender will make you an offer of an amount you can borrow. You, your Solicitor and Adviser, will receive an 'Offer Letter' with confirmation of the amount.

8

LEGAL

Your Solicitor signs a Mortgage Deed & Certificate to confirm that everything has been explained to you in full. This documentation is then sent to the Lender for them to carry out essential checks.

9

CASH

The funds will be released to your Solicitor who will in turn transfer them to you. How you receive the money (lump sum, regular payments or combination) will depend on the product.

Products Available

Lifetime Mortgages

- ✓ A mortgage that is not paid until the house is sold (usually either on your death or when you enter long term care)
- ✓ Loan is paid to you either as a lump sum or in smaller regular payments
- ✓ Interest usually 'rolls up' and is payable with the loan when the house is sold. Alternatively, some plans allow the interest to be paid off in monthly instalments.
- ✓ You can ringfence some of the value of your property as an inheritance for your family.

Home Reversion Plan

- ✓ Selling all or part of your home
- ✓ Loan is paid as lump sum, regular payments or a combination of both
- ✓ No interest payments / roll up
- ✓ There is no day to day interference and no restrictions on your house, except that you should keep the home in good condition.



Things To Consider

What costs should I consider?

ARRANGEMENT FEE

This is a fee charged by the Lender to cover the administration of arranging your loan. It is usually added to the overall cost of the loan

VALUATION FEE

For the Lender to be able to make you an offer that reflects the value of your home, they will require a valuation to take place. The cost covers the Valuer's time to complete this.

SOLICITORS FEE

As part of the equity release process, you must appoint a Solicitor. Their role is to protect you, ensure that you receive a safe product and that you understand the risks and benefits attached. The Solicitor will communicate directly with your Lender and complete all the necessary legal paperwork and requirements.

ADVICE FEE

We usually charge a fee for lifetime mortgage advice, however all initial consultations are free of charge and with no obligation. A typical fee is £999 payable on completion.

What are the alternatives?

- ❓ Downsizing your property
- ❓ Moving to a less expensive property
- ❓ Seeking financial assistance from friends or family
- ❓ Identifying if you are entitled to means tested benefits
- ❓ Applying for a traditional mortgage or loan
- ❓ Home improvements grants from your local authority

Your Security

The Equity Release Council is the industry body for the equity release sector. Born from an expansion of the remit of SHIP (formerly Safe Home Income Plans) the Equity Release Council represents the Lender, qualified Financial Advisers, Lawyers, Intermediaries and Surveyors who work in the equity release sector.

All members abide by a strict code of conduct which ensures that:

RIGHT TO REMAIN

Customers have the right to remain in their property for life provided the property remains their main residence.

CLEAR PRESENTATION

Customers will be provided with fair, simple and complete presentations of their plans. This means that the benefits and limitations of the product along with an obligations on the part of the customer are clearly set out in the literature. It should include all costs that the customer has to bear in setting up the plan as well as the tax implications, their position on moving house and the effects on changes in house values on their loan.

NO NEGATIVE EQUITY

All Equity Release Council plans carry a 'no negative equity' guarantee i.e. you will never owe more than the value of your home.

YOUR SOLICITOR

The customer's legal work will always be performed by the Solicitor of his or her choice. In all cases, prior to the completion of the plan the Solicitor will be provided with full details of the benefits the client will receive. The Solicitor will be required to sign a certificate to the effect that the plan has been explained to the client fully and that they understand the risks and benefits of the plan.

ERC CERTIFICATE

The Equity Release Council Certificate will clearly state the main cost to the householders assets and estate e.g. how the loan amount will change, or whether part or all of the property is being sold.

MOVING HOUSE

Customers have the right to move their plan to another suitable property without any financial penalty.

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