tomd.

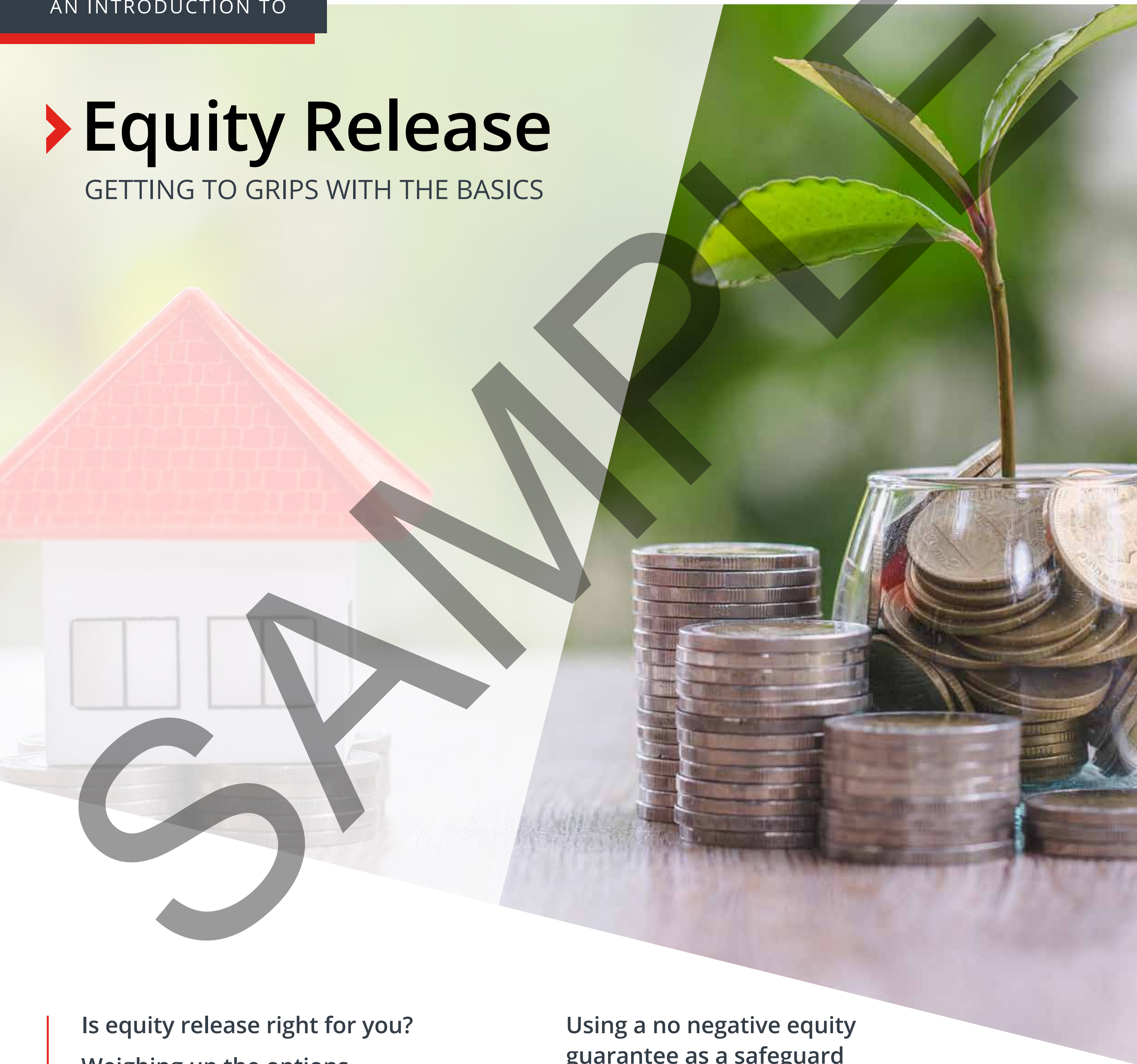
TOMD, Studio F20, Allen House, Station Road, Sawbridgeworth CM21 9JX
01279 657555 marketing@tomd.co.uk www.tomd.co.uk

This is a sample – please contact us on 01279 657555 for more information.

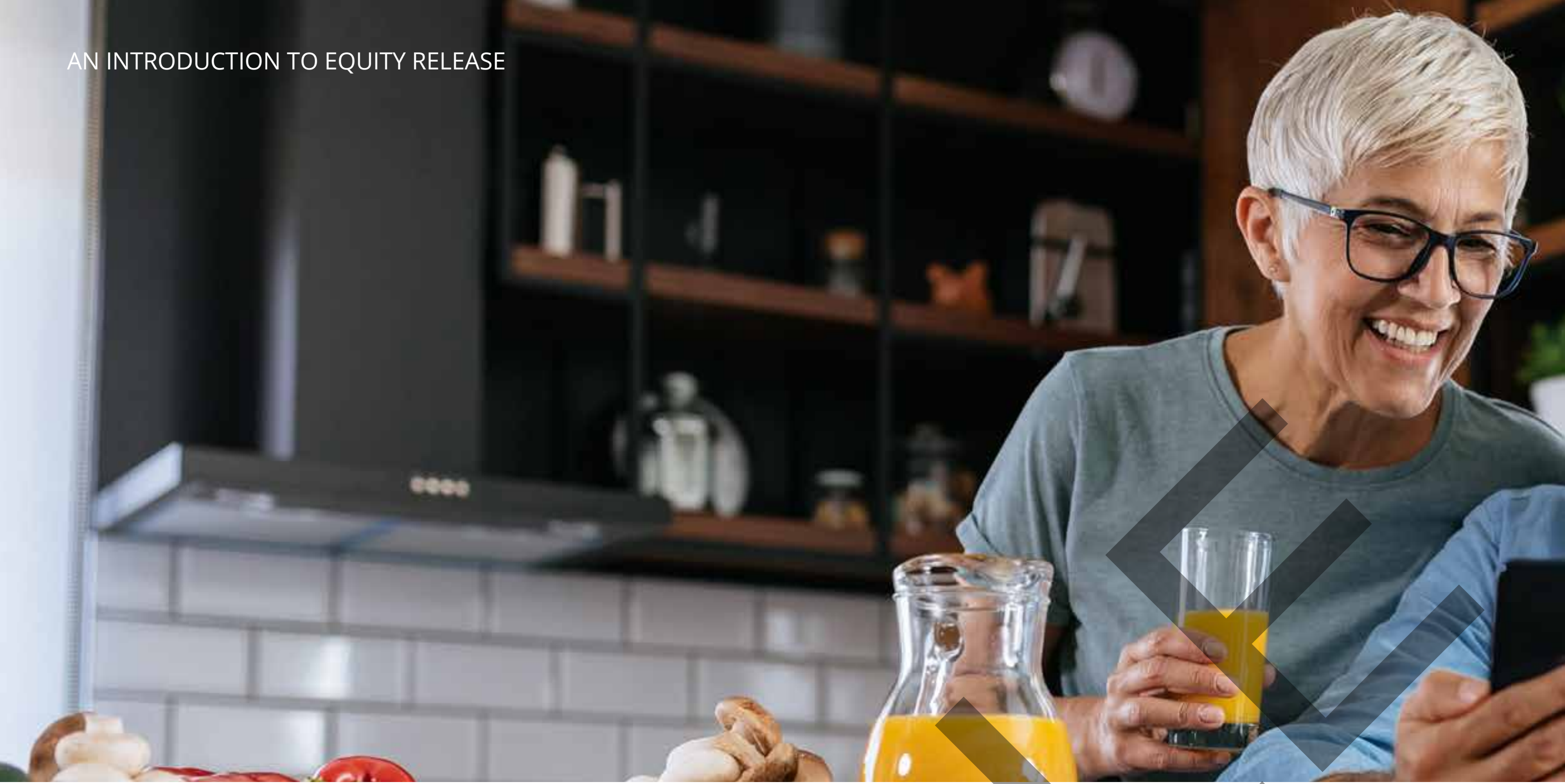
AN INTRODUCTION TO

Equity Release

GETTING TO GRIPS WITH THE BASICS



- Is equity release right for you?
- Weighing up the options
- Home reversion and lifetime mortgages explained
- Using a no negative equity guarantee as a safeguard
- Make sure you understand the costs involved
- We're here to help



As retirement approaches, some people may be hoping to access some of the value in their home. One option is downsizing; however, a house move may seem daunting and a huge upheaval, or you may still need the space. Equity release could provide the right solution for you. If you are aged 55 or over, equity release could turn some of your home's value into cash, eliminating the need to relocate, but it's not a suitable solution for everyone, as plans can often be inflexible and costly.

Equity release has been growing in popularity, with older homeowners unlocking £3.92bn of property wealth during 2019[1].

WEIGHING UP THE OPTIONS

Home reversion plans and lifetime mortgages are the two main types of equity release. Both types are subject to Financial Conduct Authority (FCA) regulation and each has its pros and cons. With a home reversion plan, you sell an agreed proportion, or all of, your home to the plan provider. A lifetime mortgage involves borrowing a percentage of your home's value, but you retain ownership.

Equity release products must be safe and reliable, and recommended only when suited to a client's needs by a person qualified to advise on them. Together with FCA regulation, industry standards are set by the Equity Release Council (ERC), previously called Safe Home Income Plans, whose quality control work now falls to the ERC's Standards Board.

LIFETIME MORTGAGE EXPLAINED

Like an ordinary mortgage, a lifetime mortgage is secured against your home. You still own your home and you or your beneficiaries can still gain from any increase in value, offset by interest accruals. A percentage of your property's value is released as a lump sum. This can be taken as a one-off payment, but drawdown schemes let you take an initial sum, followed by further amounts within a predetermined limit when required.

Interest is charged on the amounts you have received. The interest is compounded so you don't make any monthly payments unless you select an interest-only lifetime mortgage. Although some variable rate products are available, the majority of lifetime mortgages carry a fixed interest rate. Those with variable rates must be capped (have an upper limit) for the life of the mortgage. When you die or move into long-term care and the property is sold, rolled-up interest is eventually payable with the capital repayment.

Your age and your property's value determine the sum you can borrow. You can normally borrow up to 60% of the value of your property. How much can be released is dependent on your age and the value of your property. If you survive for many years, rolled-up interest could mean your debt would overtake your property's value, but a 'no negative equity' guarantee is usually available. Some schemes offer 'inheritance protection' to ensure the property's value can't be entirely wiped out.

To be eligible for a lifetime mortgage, you need to be aged 55 or older. The property must be your main residence, of standard construction and worth at least £70,000. If the lender agrees, plans may be transferable to another suitable property.

SOME DOWNSIDES OF LIFETIME MORTGAGES:

- An early repayment charge may apply if you decide to repay the plan early
- Typically, the interest is added to what you owe and accumulates over time, with interest accruing on the interest
- On your death, the loan and any accrued interest will be paid off from the value of your home, reducing what your heirs receive (though it may also reduce any Inheritance Tax due on your estate).

HOME REVERSION EXPLAINED

In basic terms, home reversion involves selling all or a proportion of your home in return for money. You can then continue living in your home rent-free, generally for the rest of your life. As home reversion plans are not loans, no interest accrues. However, if the price of your property rises in value, you will only benefit according to the proportion you still own.

To be eligible for a home reversion plan, most lenders will require you to be at least 60 or 65. Your individual circumstances will determine how much equity you are able to sell to the plan provider. This could be 100% of your property. However, you will only receive a percentage of the market

Despite being a potentially useful tool for raising money, bolstering retirement income, paying for home improvements or providing cash, equity release will have an impact on the amount of inheritance you leave to your family, it's therefore a good idea to talk it over with them before going ahead.

value of that portion, which could be only about 25% if you're at the younger end of the age range.

SOME DOWNSIDES OF HOME REVERSION:

- According to the government Money Advice Service: *'Home reversion plans are high-risk products. They could have major implications for tax, benefits, inheritance and your long-term financial planning'*
- As payday for the plan provider may be many years away – you'll get much less than the true market value for the portion of your property you part with
- If you were to die soon after starting the plan, you could have sold off a portion of your home at a fraction of the true market value (although some schemes will pay a rebate if you die within a certain time frame

CONSIDERING ALTERNATIVES

It's important to take time to consider all of the alternatives to equity release, including your savings and investments, local authority grants or assistance, downsizing, renting out one of your rooms and selling your home to live in rented accommodation.

KEEPING UP STANDARDS

Giving advice of equity release products is a highly specialised area. In addition to specialist equity release qualifications, the Equity Release Council standards require plans to have the following features unless clearly stated otherwise:

- Freedom to move home and transfer the plan
- A 'no negative equity' guarantee, so the debt can't exceed a property's value
- Optional repayment allowed at any time (early repayment charges may apply)
- For lifetime mortgages, interest rates must be fixed or if variable, must be capped for life
- Able to remain in the property for life or until you go into long-term care.

Professional advice is essential; equity release isn't the right solution for everyone.

Releasing cash from your home reduces the value of your estate and the amount of inheritance you leave, so you should involve your children and dependants from the outset.

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

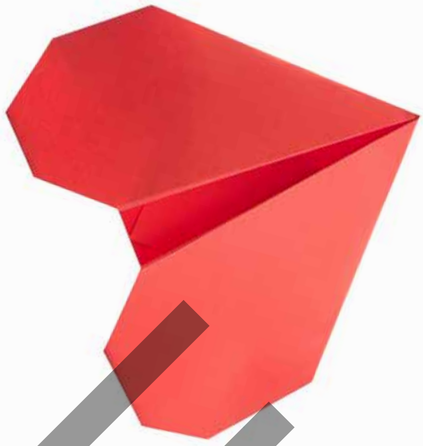
A lifetime mortgage can quickly erode the remaining equity and as a result there may be no value left to pass on.

Think carefully before securing other debts against your home. Equity released from your home will be secured against it.

[1]Equity Release Council, Feb 2020

WE'RE HERE TO HELP

We're only a phone call away, so if you have any questions or would like to discuss any aspect of equity release, then please do get in touch.



Top Tips

MAKE SURE YOU TAKE THE TIME TO DISCUSS YOUR PLANS WITH YOUR FAMILY

Despite being a potentially useful tool for raising money, bolstering retirement income, paying for home improvements or providing cash, equity release will have an impact on the amount of inheritance you leave to your family, it's therefore a good idea to talk it over with them before going ahead.

CAREFULLY CONSIDER ALL YOUR OPTIONS

By drawing up a budget, you will be able to calculate how much cash you will need, and when. This means your equity release plan can be tailored to your specific needs.

If you are considering using equity release to pay off a mortgage, there may be other solutions that may be more suitable, so good advice is essential. If you intend to use the cash for home improvements, check to see if you qualify for a local authority grant.

USING A 'NO NEGATIVE EQUITY' GUARANTEE AS A SAFEGUARD

A 'no negative equity' guarantee provides a safeguard that the loan, plus the interest, can never exceed the value of the property. So, if you move into care or die, your beneficiaries or dependants won't be faced with extra debt.

PROTECT YOUR INTERESTS WITH A JOINT PLAN

By taking out a joint plan, this will provide you with equal rights for either party to continue to live in a shared home if the other needs to move into long-term care or dies.

DRAWDOWN LIFETIME MORTGAGES PROVIDE FLEXIBILITY

The drawdown type of lifetime mortgage has risen in popularity, as it gives homeowners the freedom to take a lump sum secured against their property whilst leaving some in reserve for access later, as and when needed. This means they can opt to leave more of their equity intact to pass on to family as an inheritance. Interest accrues only on the money drawn down and on earlier interest.

DON'T BE LURED BY THE LOWEST INTEREST RATE

It's important to remember that the plan with the lowest interest rate may not be the best. Plans come with a variety of benefits and features. The plan you select needs to meet your needs. For instance, some plans allow borrowers to make monthly interest payments to avoid the interest rolling up, this is worth considering.

MAKE SURE YOU UNDERSTAND THE COSTS INVOLVED

Costs will vary between providers and may include admin or set-up fees, solicitors' fees and, depending on the option you choose, surveyors' fees for when they carry out a valuation of your home.

IF YOU RECEIVE BENEFITS THEY MAY BE AFFECTED

Bear in mind that if you receive means-tested benefits, your entitlement to them could be affected if there is a change in your circumstances and your savings or income increase. Seek advice on how to release equity without affecting your benefits.

Warning statement

It is important to take professional advice before making any decision relating to your personal finances. Information within this document is based on our current understanding and can be subject to change without notice and the accuracy and completeness of the information cannot be guaranteed. Some rules may vary in different parts of the UK. We cannot assume legal liability for any errors or omissions it might contain. No part of this document may be reproduced in any manner without prior permission.