



RELEASE
FREEDOM

VIEWPOINT

RELEASE FREEDOM LTD

Thanks for reading our newsletter. If you want to discuss any of the articles in more detail, please get in touch.

Timbertop, The Street, Bossingham, Canterbury, Kent, CT4 7HN
bridgland.simon@yahoo.co.uk | 07788 605912

Unlocking the value in your home

The number of people using equity release schemes fell last year as older homeowners grew more cautious.

Older homeowners seemed to be more reluctant to release cash from their homes in 2020, according to the Equity Release Council. Data from the trade body shows drawdowns from lifetime mortgages fell by 21% last year and 10% fewer plans were agreed than in 2019.

This drop suggests the coronavirus pandemic affected the equity release market in 2020, with activity slipping to a four-year low between April and June. Yet the end of the year was a different story – a backlog of cases meant it was unusually busy, with 11,566 new equity release plans agreed between October and December.

What is equity release?

Equity release enables homeowners who are aged 55 and over to access some of the money tied up in their homes. You can take the money as a lump sum or in several smaller amounts. Many people choose this option to supplement their retirement income, make home improvements or help children or grandchildren get onto the property ladder.

The most common way to release equity from your home is through a lifetime mortgage, which allows you to take out a loan secured on your property, provided it's your main residence. You can ring-fence some of the property value as inheritance for your family and you can choose to make repayments or let the interest roll up. The mortgage amount, including any interest, is paid back when you die or move into long-term care.

Alternatively, you can take out a home reversion plan, which enables you to sell all or part of your home for a lump sum or regular payments. You can continue living

there rent-free until you die, but you'll have to pay to maintain and insure it. You can ring-fence some of the property for later use. At the end of the plan, the property is sold and the proceeds are shared according to the remaining proportions of ownership.

Is equity release falling out of favour?

In 2020, £3.89 billion of equity was released from property, compared with £3.92 billion in 2019 and £3.94 billion in 2018, according to the Equity Release Council (5). These figures suggest people are biding their time before unlocking wealth from their homes, according to David Burrowes, the trade body's chairman (6).

Yet interest rates for lifetime mortgages are now falling, which could encourage people to take the next step. The average equity release interest rate fell to around 4% during the last three months of 2020, with the lowest rates now at around 2.3% (7). This rate is less than many of those available on 10-year fixed-rate mortgages, but higher than a lot of products with shorter fixed periods (8).

Is equity release right for you?

Deciding to release funds from your home isn't a decision to take lightly. While equity release means you have money to spend now instead of leaving it tied up in your property, it can be a complicated process. Remember that equity release often doesn't pay you the full market value for your home and it will also reduce the amount of inheritance your loved ones could receive. It's important to talk to a financial adviser who can help you decide whether the process is appropriate for you.

A Lifetime mortgage is a loan secured against your home. A Lifetime mortgage may affect your entitlement to state benefits, and it will reduce the value of your estate.

Borrowing options in your later years

Retirement is an exciting time; the start of a new chapter in life. Whilst we will have worked, saved and prepared for this moment for a long time, many of us will find we don't quite have enough money to fund all the things we planned to do.

Luckily, there are an increasing number of options for borrowing in your later years, enabling people to stay in their homes for longer and help fund their retirement lifestyle.

Mortgage

One option is a traditional residential 'capital and repayment' or 'interest-only' mortgage. Many lenders have increased their upper age cap limits in recent years, enabling mortgages to now be applied for by people up to 80 years old and allowing mortgage terms that end when a customer is up to 85 years old.

You'll have a better chance of being accepted for these mortgages if you have a good credit history. Your income will need to be high enough to easily cover the mortgage payments, so lenders will be looking for proof of pension income. This is easier to do once you are retired. However, if you are yet to retire, your pension provider can give confirmation of your expected retirement date, current pension pot and expected retirement income. The mortgage provider will also be interested in other income you may have, such as from shares and property investments.

Equity Release

Another option is equity release. With an Equity Release Mortgage, you borrow an amount against a part-share of your home, either as a one-off lump sum or a monthly income.

You still own your home, and the payment can be used for a variety of purposes. These are, most commonly, to pay off an outstanding mortgage, pay for a major purchase or unexpected cost, or simply to help fund your retirement.

Lifetime Mortgage

A Lifetime Mortgage differs to a traditional Residential Mortgage as payments do not need to be made throughout the term of the mortgage. Instead, the total amount borrowed plus the interest is repaid when the house is sold, which is usually after the borrowers have moved into a care home or passed away.

Both Equity Release and Lifetime Mortgages will impact elements such as how much inheritance you have available to pass on, eligibility for state benefits and your tax position.

Each of these borrowing options suits different circumstances so you must carefully consider which would be best for you in your later years.

You will need to take legal advice before releasing equity from your home as Lifetime Mortgages and Home Reversion plans are not right for everyone. This is a referral service.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP YOUR REPAYMENTS ON YOUR MORTGAGE.

Jargon and lingo – talking about mortgages

From agreement in principle and loan-to-value to freehold and leasehold, we've compiled a list of terms you're likely to come across when buying a property and what they actually mean.

Buying a property can be a complicated process, and even more confusing when you're confronted with various terms you've not come across before. To help you make sense of it all, we've listed some key definitions you'll need to know.

This list should give you a good head start when it comes to understanding the jargon around mortgages. To help you take the stress out of buying a property, speak to a financial adviser about how they can help you find the most suitable mortgage and guide you through the process.

Agreement in principle	A document from a mortgage lender with an estimate of how much money you may be able to borrow. You can use this to prove to a seller that you can afford to buy their property.
Annual percentage rate (APR)	The overall cost of a mortgage, including the interest and fees. It assumes you have the mortgage for the whole term.
Arrangement fee	A set-up fee for your mortgage.
Base rate	The interest rate the Bank of England charges other banks and lenders when they borrow money.
Buildings insurance	Covers you for damage to the structure of your home – you'll need to have a policy in place when you take out a mortgage.
Capital	The amount of money you borrow to buy a property.
Conveyancing	The legal process you go through when you buy or sell a property done by a licensed conveyancer or solicitor.
Deposit	The amount you need to put down in cash towards the cost of a property.
Equity	The amount of the property that you own outright – your deposit as well as the capital you've paid off on your mortgage.
Fixed-rate mortgage	The interest rate on the mortgage stays the same for the initial period of the deal. Your rate won't change with the Bank of England base rate during this time.
Flexible mortgage	Allows you to underpay, overpay or take a payment holiday from your mortgage – they are usually more expensive than conventional mortgages.
Freehold	You own the building and the land it stands on.
Gazumping	When an offer has been accepted on a property but a different buyer makes a higher offer, which the seller accepts.
Guarantor	A third party who agrees to meet the monthly mortgage repayments if you can't.
Help-to-Buy	The government has introduced various Help to Buy schemes to make buying a home easier, including equity loans, mortgage guarantees, ISAs and specific schemes for Scotland and Wales.
Interest-only mortgage	You only pay the interest on your mortgage each month without repaying the capital.
Joint mortgage	A mortgage taken out by two or more people.
Land Registry	The official body responsible for maintaining details of property ownership.
Leasehold	You own the building but not the land it stands on, and only for a set period.
Loan-to-value	The size of your mortgage as a percentage of the property value.
Porting	Allows you to transfer your borrowing from one property to another if you move, without paying arrangement fees.
Repayment mortgage	You pay off interest and part of your capital each month.
Stamp duty	You'll need to pay stamp duty land tax when you buy a property over a certain price.
Standard variable rate (SVR)	The default interest rate your lender will charge after your initial mortgage period ends.
Tracker mortgage	The interest rate on your mortgage tracks the Bank of England base rate at a set margin above or below it.
Valuation survey	Lenders will carry one of these out to check whether the property is worth around the amount you're paying for it.

YOUR HOME MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE