Equity release explained

What it is, how it works, and the questions worth asking before you consider it.

Equity release is a way for homeowners to access some of the value tied up in their property without moving. It is a later life option, and like most later life options it exists because a house can be worth a great deal while the income available to its owner is modest.

There are two broad forms. A lifetime mortgage is a loan secured against your property, which typically does not need to be repaid until the last borrower dies or moves into long-term care, with interest either paid as it arises or added to the balance. A home reversion plan involves selling part or all of your property at less than market value in exchange for a lump sum or income, while remaining there rent free under the terms of the arrangement. In a home reversion plan you no longer own the property; with a lifetime mortgage you do.

The single most important thing to understand is the effect of interest on a balance that is not being paid. Where interest is added to the loan, the amount owed grows over time, and the effect over a long period is substantial. This is why a lifetime mortgage has a no-negative-equity guarantee - you will not owe more than the value of your home - but it also means the amount left for your estate can be reduced considerably.

Beyond the balance, there are consequences that people often do not consider. Releasing equity can affect your entitlement to means-tested benefits, now or in the future, because capital and assessable income change. It can affect your estate and, in some circumstances, what you are able to pass on. It can affect your options if your circumstances change, because lifetime mortgages involve early repayment charges in many cases and reversion plans are hard to unwind.

What does the money get used for? This is not a trivial question. Using equity to meet a genuine, considered need, or to improve quality of life in a way that matters to you, is one thing. Using it to leave an inheritance, or because it feels like free money, is usually another. The transaction is straightforward; the judgement is not.

There are alternatives worth considering before deciding anything. Downsizing or moving to something more suitable releases equity as well as changing your circumstances, and may be simpler and cheaper. Using savings, where they exist, avoids adding to a balance. Improving your income by other means, or indeed deciding that the need can wait, are both legitimate answers.

Where equity release seems right, the process includes safeguards. You will need to take regulated advice, and a personalised illustration sets out the features and risks, the effect on your estate and the alternatives. That document is worth reading slowly and asking questions about. A solicitor or

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independent legal adviser can also be involved, and this is not a formality.

This guide is general information and does not constitute personal advice. Equity release is not right for everyone, the product you may be offered depends on your circumstances, and specialist advice is essential before proceeding. Ask for a personalised illustration.

Important information

Your home is at risk if you fail to keep up payments on your mortgage or any other loans secured against it.

Equity release may involve a lifetime mortgage which is secured against your property or a home reversion plan which requires the sale of property for a discounted price. To understand the features and risks, ask for a personalised illustration. You only continue to own your own home with a lifetime mortgage.

Equity release may impact the size of your estate and it could affect your entitlement to current and future means-tested benefits.

This guide is general information and does not constitute personal advice. To discuss how any of this applies to your own circumstances, contact Conduit Financial Planners on 01708 98 29 58 or info@conduitfp.co.uk.

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