Knight Frank Finance

An Introduction to Equity Release

As a UK homeowner, it's likely that your home and any other properties in your name have become your most valuable assets.

Owning property brings with it great opportunities. If you have built up substantial equity in your home, and you are over 55, you may be able to access a range of specialist financial options that will allow you to release some of those funds.

The process could enable you to reallocate money where it is needed most. For example; to help family members take a step onto the housing ladder, to make improvements to your own home, to improve your retirement income or to go on the holiday of a lifetime.

Equity Release is an increasingly popular method used by homeowners seeking to access finance secured against their home.

What is Equity Release?

'Equity' is the value of your property minus any mortgages or other debts secured on it. The term 'Equity Release' is used to describe two products; Lifetime Mortgages and Home Reversion Plans, which provide you with a way of releasing the wealth built up in your home and any other properties in the UK, providing you are over the age of 55.

Equity Release products allow you access to a lump sum, a draw down facility, a regular sum (which can top up your income), or a combination of all three. Since 2014, equity release has become both increasingly flexible and more professional, via more robust regulation through its own industry trade body.

Borrowers can either manage the debt by making monthly payments or simply allow the interest to 'roll up' on top of the loan, also known as compounding, so you have no monthly payments to worry about. The amount you can borrow is based on the value of your property and the age of the youngest applicant. Lifetime mortgages can be used for almost any reason.

Who is Equity Release for?

Equity Release is only available if you are a homeowner over the age of 55.

In what scenarios might Equity Release be useful?

Equity Release can be used for a variety of reasons, including:

- Providing a deposit to help children or grandchildren to purchase a property
- Making home improvements or alterations
- Repaying an existing mortgage
- Consolidating other debts
- Providing a financial gift to loved ones
- Topping up your monthly income
- Travelling
- Purchasing a new property to live in
- Making a luxury purchase
- Inheritance tax liability planning

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Is it safe?

With the Equity Release Council's new standards framework now in force, the Equity Release market is better regulated today than it has ever been. All providers have signed up to the Council's four product standards. The Financial Conduct Authority (FCA), the regulator tasked with overseeing financial companies and markets, ensures your adviser is properly qualified to give you advice. Advisers must follow strict rules set out by the FCA that include; giving you the knowledge and information you need, and informing you of all the pros and cons. It may be that Equity Release is not the right solution for you.

Is it expensive?

The cost of Equity Release depends on your age and the amount of equity you want to access. In 2019, interest rates on Lifetime Mortgages fell to as low as 2.6%, and there are many products available below 3%. These rates are typically fixed for the rest of your life, which is 15 years or more for the average Equity Release customer. Interest rates are higher if you want to release a lot of equity, but that doesn't mean it's expensive if it allows you to meet your goals.

What is a Lifetime Mortgage?

A Lifetime Mortgage is a loan secured against your main home. It differs from a regular mortgage because there is no fixed term and the lender does not expect the loan to be paid back until the youngest applicant either passes away or moves into long-term care. The mortgage is normally repaid from the sale of the house. Interest rates are usually fixed for the life of the mortgage, and most lenders provide you with a high degree of flexibility so you can repay small amounts without penalty, borrow more if you need to, move home in the future and even use your home to top up your income.

What is a Home Reversion Plan?

A Home Reversion Plan will provide you with a lump sum in exchange for the purchase of your entire home, or a large proportion of it, by the plan provider. This means you no longer own your home, however you will have the legal right to live in it as a tenant for the rest of your life, with little or no rent to pay. The amount the providers will pay for your home is based on your age and therefore how long you might live there as a tenant, so you will not receive the full market value of your property.

What other financial options are available to those over the age of 55?

Short-term finance

There are a number of options that bridge the gap between selling your existing home and buying a new property. This is particularly helpful if you are part of a delayed or broken chain, need to move quickly for health reasons, or would prefer to move before your current home is sold so you can decorate and maximise the sale price you achieve.

Retirement Interest Only (RIO) mortgages

If you have a steady income and can continue to meet mortgage payments, a retirement interest-only mortgage might be an attractive way to raise money against your property. As your interest-only mortgage comes to an end, you may be told you are not eligible to extend or take a new mortgage due to your age, depending on your current lender's criteria. A retirement interest-only mortgage will allow you to continue making monthly interest payments and stay living in your home.

Buy-to-let in retirement

There are a number of buy-to-let lenders in the market that will offer loans to landlords until age 90, subject to the type of property and the type of tenancy agreement in place. As a landlord, you can also borrow using an 'over 55s Buy to Let Mortgage'. These work in the same way as a Lifetime Mortgage, which means the interest can roll up on top of the loan. You can benefit from the full income generated by your rental property. These mortgages do not have any affordability assessment, and the loan is based on the value of the property and the age of the youngest applicant.

How Knight Frank Finance can help you

Our experienced advisors can help you find the right option for your unique circumstances. We'll explain the process involved in releasing wealth and ensure that you make an informed decision. If Equity Release is not the right solution for you, we'll use our broad range of property finance knowledge to recommend a better alternative.

Our Later Life Finance team are all qualified in Equity Release, and provide a friendly but professional service that we hope will put you at ease.

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