# Equity Release
# Later Life Financial Planning

Equity release was originally designed for older people who wanted to increase their income by releasing some of the capital tied up in the value of their homes but did not want to move house. Modern variants of equity release permit the money released not only to provide income but also to pay off debts, to fund home improvements, or to pay for private medical treatment. It could equally be a funding option for people who wish to receive care in their own home.

However, equity release is a relatively expensive option and possible alternatives should be considered, such as trading down to a less valuable property.

Two types of scheme are available - lifetime mortgages and home reversion schemes.

- Lifetime mortgages can take a similar form to a normal interest-only mortgage, with the loan being repaid when the house is sold or the homeowner moves into long term care home or dies. Optionally, both capital and interest can be rolled-up and paid when one of those events occurs. In each case any excess of the value of the property over the loan and interest will be paid to the homeowner of their estate.

If the homeowner were to live for a very long time, it is possible that the payments received could exceed the value of the house. However, all reputable equity release schemes now include a “no negative equity” guarantee, which ensures that the homeowner will never owe more to the lender than the value of their property. And if the homeowner decided to move house, they could take the lifetime mortgage with them.

- Home Reversion schemes allow homeowners to sell their property, or a share in its value, to a reversion company in return for a lump sum or a regular income and to be granted a rent-free right to remain in residence. The company recovers the payments it has made from the proceeds of sale of the property when the occupant enters into long term care or dies. Typically, the occupant would receive payments totalling between 35% and 60% of the value of a property, depending on their age and, if applicable, that of their partner.

Reversion schemes provide greater certainty as to the costs and benefits. With lifetime mortgages, the debt increases annually and therefore the final sum payable cannot be predicted. It depends entirely on the length of time the householder lives, the level of interest rates and the level of house price inflation.

However, lifetime mortgages enable the homeowner to benefit from any increase in the value of their house. They are also more flexible. If the homeowner were to die only one month after taking out a lifetime mortgage, then only one month’s interest plus the amount of the loan would be payable.


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