

what is equity release?

what is equity release?

how does equity release work?

how is equity released?

do I qualify for equity release?

your personal circumstances

home reversion schemes

lifetime mortgages

the property

how much will I be able to release?



what is equity release?

The **equity** in your home is defined as its open market value minus any mortgage or loan secured against it. **Equity release** is a way of releasing cash from the equity in your home which can be achieved in a variety of ways, including trading down to a smaller property and releasing capital in the process. This is also known as 'downsizing'. Other options include selling the property and moving in with a member of the family or into rented accommodation; selling part of the property, for example, the garden, or entering into a commercial equity release scheme.

A commercial equity release scheme will enable you to release equity in your home through :

- a lump sum,
- regular income payments,
- or a combination of both - without having to move out of your home.

There are two main types of commercial equity release schemes: a **home reversion** and a **lifetime mortgage**. With a home reversion you sell all or part of your home to a specialist company but continue to live there as a tenant of the company, paying little or no rent. Your home is sold when you die or move out of it. With the more popular lifetime mortgage option you take out a mortgage (loan) secured on your home which will be repaid from the proceeds of sale when you die or move out of it. More than 95% of people releasing equity from their home with a commercial equity release scheme do so through a lifetime mortgage.

how does equity release work?

How is equity released?

With most equity release schemes you will receive your money as a cash lump sum which you can use as you wish. The lump sum can be made available immediately, or the maximum you can obtain under the scheme will be calculated at the onset and an initial sum will be paid. The balance will then be held in an interest free reserve for you to 'drawdown' over an agreed period.

If you require an income, there are a number of options currently available:

- The scheme you have chosen may provide you with a regular income.
- Some schemes enable you to drawdown an income when required.
- There are also schemes available that incorporate a mixture of these features. For example, you can take an initial lump sum and draw down income at a later date.

do I qualify for equity release?

Choosing the most suitable scheme will depend upon a number of factors including

- how much you require
- the value of your home
- whether you want a lump sum, an income or a combination of both
- your age

In certain circumstances, your health; your attitude to risk, and the importance that you place on leaving an inheritance are also considered.

Providers will have main conditions that you will need to satisfy to be eligible for a particular scheme and these mainly relate to your personal circumstances and the property.

Your Personal Circumstances

The unique feature of equity release is that it is universally available to homeowners over a certain age, usually 55, and providers of the schemes will not impose any income requirements unless it is an interest-only lifetime mortgage. The type of scheme will determine the amount that can be released.

Home reversion schemes

Providers of home reversion schemes will not usually stipulate a minimum advance; however homeowners will be encouraged **not** to sell all their interest in the property so they can retain a share for future equity release, or as inheritance.

There are a number of factors that will determine the amount that can be released:

- Your age and that of your spouse/partner
- The gender of you and your spouse/partner (women are still assessed as having a longer life expectancy than men)
- Your health (this may have an impact on your life expectancy and in such circumstances providers may offer enhanced terms)
- The value of your home

If you sell all or part of your home to a home reversion provider, you will not receive the full value of the whole or part of the property sold. This is because the provider will be taking a risk on how long you will live before it gets its money back. With most schemes, throughout this time you will be occupying the property paying little or no rent. If you are advancing in years or in ill-health you may be offered more for your interest in the property. You will usually receive between 30% and 60%, depending on your age.

Applicant in good health selling 100% of property to a home reversion provider will receive the following payment

Age of youngest applicant	Maximum % of property value paid to applicant
65	43%
70	51%
75	58%
80	62%
85	67%
90	74%

Lifetime mortgages

Providers of lifetime mortgages usually stipulate a minimum loan expressed as a sum or as a minimum loan-to-value, typically starting at around 20% of the property value with the loan-to-value linked to the homeowner's age. For example, 20% at 60, rising by one per cent point for each year above 60, with an upper limit of 45% at 85, or 50% at 90. In the case of joint applicants, the relevant age is usually that of the youngest occupier of the property. As with home reversion schemes, there are a number of factors that will determine the amount that can be released:

- Your age and that of your spouse/partner/joint owner
- The value of your home.

The following table is a guide only and you should ask your financial adviser for a personalised illustration.

Age of youngest applicant	Maximum of property value that can be released
55	15%
60	20%
65	25%
70	30%
75	35%
80	40%
85	45%
90	50%

The Property

The value and type of property in which you live can influence the availability of an equity release scheme. Typically, providers will require that your home is worth at least £75-80,000. A number of providers will accept property as security if it is only in England and Wales. Others will extend the scheme to Scotland. There is also limited availability of schemes in Northern Ireland, the Isle of Man and the Channel Islands.

It is important that you check the provider's conditions in advance to make sure that your home is likely to be suitable before the application is submitted, as a number of providers will not refund valuation fees.

The property must be your main residence, unless it is a specialist equity release scheme that allows a second home or commercial property to be used as security.

Your home will need to provide suitable security and be in a reasonable state of repair. However, it may be possible for the scheme to include a condition that part of the money released is used to improve the property to a standard deemed acceptable to the provider. In some cases, the provider may retain some of the money due to you until essential repairs have been completed, and only then will the balance of the money will be released to you.

Most freehold and leasehold properties in England and Wales will be accepted as security. Leasehold properties must have a minimum unexpired term, usually expressed as at least 75 or 80 years. If you fail to meet this condition, it may be possible for some of the equity being released to buy the freehold or extend the lease for a term of 90 years on top of the unexpired term of the existing lease.

The construction and use of your home may limit the availability of an equity release scheme, for example:

- timber, metal framed or prefabricated buildings and properties containing red ash
- some sheltered accommodation schemes
- properties used for commercial purpose
- mobile or park homes and properties held in certain types of trust.

The issue of trusts will require specialist legal advice, particularly if the trust has been established to save you inheritance tax, or protect all or part of your home from a financial assessment should you be admitted into a care home.

how much will I be able to release?

The type of scheme will determine the amount that can be released. With a lifetime mortgage you will only be able to release part of the capital tied up in your home and the older you are, the more you will be able to borrow. With a home reversion scheme, it may be possible for you to sell the whole of your home to a provider in exchange for a lump sum or income; however the provider will not pay the full market value.

contact us

For general enquiries please email
enquiries@ersalaw.co.uk
or Freephone 0800 988 5102



ersa 
Equity Release Solicitors' Alliance