An introduction to **equity release**

Getting to grips with the basics

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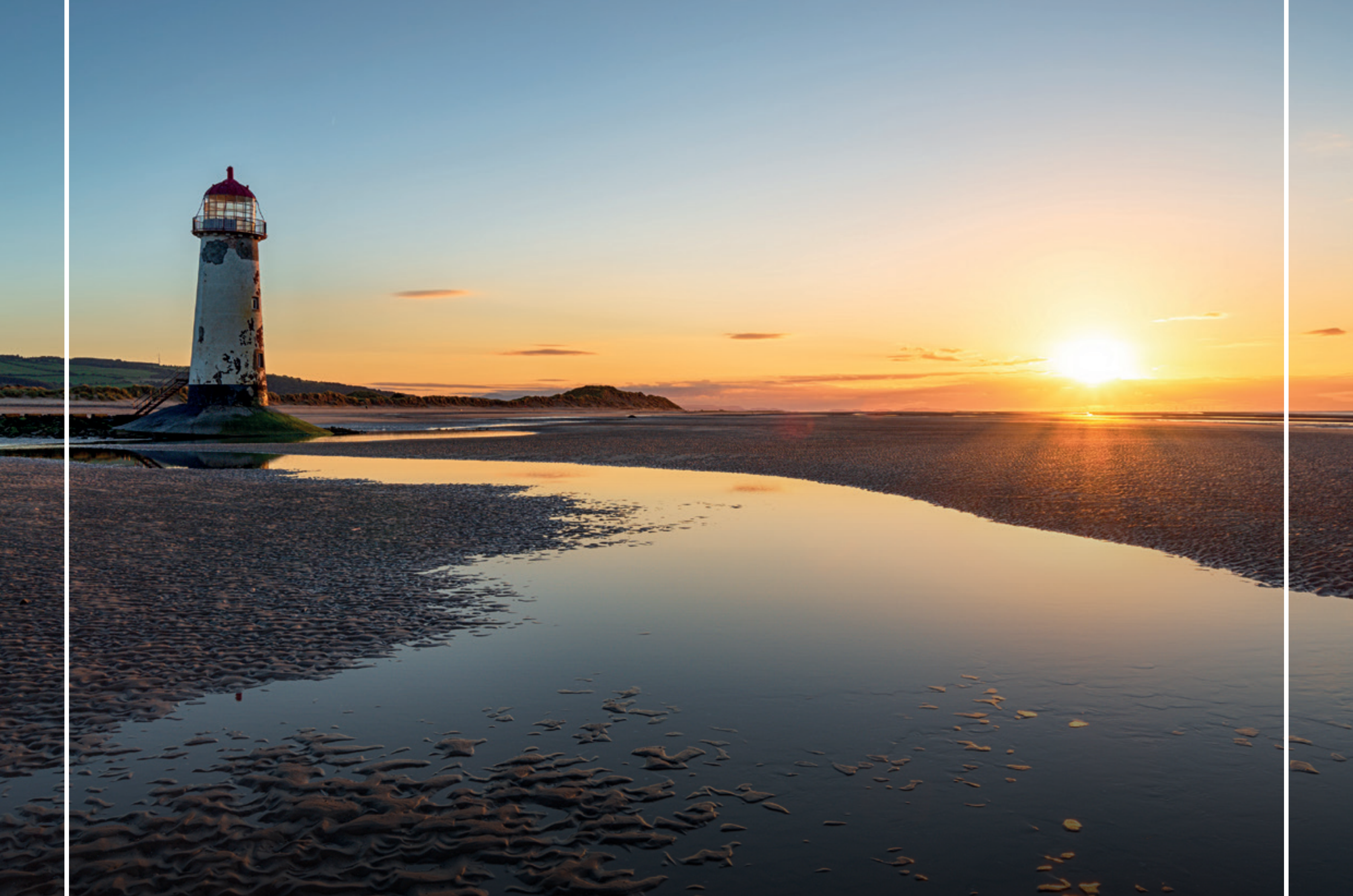
Shaking the magic **money tree**

Many people approach retirement owning the family home and would like to access some of the value stored in its bricks and mortar. Downsizing is one option but, if you still need the space or a move seems too daunting, equity release may provide an alternative solution. If you are 55 or older, it could turn some of your home's value into cash, without forcing you to relocate; but it's no magic money tree, as plans may be expensive and often inflexible.



1

This mortgage is for life (usually)

Like an ordinary mortgage, a lifetime mortgage is secured against your home; you still own that and you or your beneficiaries can still gain from any increases in value, offset by interest accruals. The plan releases a percentage of your property's value as a lump sum. This may be a one-off payment, but drawdown schemes let you take an initial sum, followed by further amounts within a pre-set limit when needed.

Interest is charged on the amount you have received, and the interest may be compounded if you do not make any monthly payments. You can choose to make monthly interest payments, or you can let the interest roll up. Most lifetime mortgages carry a fixed interest rate and although variable rate products are available, under ERC standards, they must be capped (have an upper limit) for the life of the mortgage.

The sum you can borrow largely depends on your age and your property's value. You can normally borrow up to 60% of the value of your property. How much can be released is dependent on your age and the value of your property. If you survive for many years, rolled-up interest could mean your debt would overtake your property's value, but a 'no negative equity' guarantee is usually available and some schemes offer 'inheritance protection' to ensure the property's value can't be wiped out entirely. For a lifetime mortgage, you need to be 55 or older. The property must be your main residence, of standard construction, and worth at least £70,000. Plans may be transferable to another suitable property if the lender agrees.

Lifetime mortgage drawbacks include:

- Usually the interest is added to what you owe and accumulates over the years, with interest accruing on the interest
- If you decide to repay the plan early, there may be an early repayment charge
- When you die, the loan and any accrued interest will be paid off from the value of your home, reducing what your heirs receive (though it may also reduce any Inheritance Tax due on your estate)
- It may have a tax impact and affect certain state benefits.

Think carefully before securing other debts against your home. Equity released from your home will be secured against it.

Two ways to release equity

There are two main types of equity release: lifetime mortgages and home reversion plans. With a lifetime mortgage, you borrow a percentage of your home's value but retain ownership. Under a home reversion plan, you sell an agreed proportion, or all of your home to the plan provider. Both types are subject to Financial Conduct Authority (FCA) regulation and each has its pros and cons. Sandringham does not currently offer advice on home reversion plans.

In parallel with FCA regulation, industry standards are set by the Equity Release Council (ERC). Equity release products must be safe and reliable, and recommended only when suited to a client's needs by a person qualified to advise on them.

2

Home reversion means selling a stake in your home

Home reversion involves selling all or a proportion of your home in return for cash, on the basis that you can continue living there, generally for the rest of your life, or you move into long-term care. Home reversion plans aren't loans, so there's no interest accruing. However, if property prices rise, you only benefit according to the proportion you still own.

For a home reversion plan, most lenders will require you to be at least 60 or 65. Your individual circumstances will determine how much equity you are able to sell to the plan provider. This could be 100% of your property. However, you will only receive a percentage of the market value of that portion, maybe only about 25% if you're at the younger end of the age range.

Home reversion drawbacks include:

- You'll get much less than the market value of the stake in your property that you part with, because of your right to continue living there whilst payday for the plan provider may be many years away
- If you die soon after starting a plan, you could have sold off (part of) your home at a fraction of market value, though some schemes make a rebate if you die within a certain time
- The government Money Advice Service states, 'Home reversion plans are high-risk products. They could have major implications for tax, state benefits, inheritance and your long-term financial planning.'.

Equity release standards

The ERC sets out standards asking members to act with professionalism and integrity, providing trusted, transparent, tailored, thorough advice and support – whether it is through product design, how advice is provided or how people are treated when they decide to take out a product.

Professional advice is essential; equity release isn't the right solution for everyone. Releasing cash from your home reduces the value of your estate and the amount of inheritance you leave, so you should involve your children and dependants from the outset.

To understand the features and risks, ask for a personalised illustration.

We're here to help

We're only a phone call away, so if you have any questions or would like to discuss any aspect of equity release, then please do get in touch.

"Equity release is a potentially useful tool for raising money and can help bolster retirement income, pay for home improvements or provide money to pass to other family members while you're still alive. As it will impact the amount of inheritance you leave to your family, it's a good idea to talk it over with them before going ahead."

Top **tips**

Consider all your options

Drawing up a budget will help you work out how much money you will need, and when you'll need it. That way, your equity release plan can be tailored to your requirements.

If you are considering using equity release to pay off a mortgage, there may be other solutions that could work better for you, so it's important to get good advice. If you're looking to use the cash for home improvements, it's worth checking to see if you'd qualify for a local authority grant.

Discuss your plans with your family

Equity release is a potentially useful tool for raising money and can help bolster retirement income, pay for home improvements or provide money to pass on to other family members while you're still alive. As it will impact the amount of inheritance you leave to your family, it's a good idea to talk it over with them before going ahead.

Drawdown lifetime mortgages provide flexibility

The drawdown type of lifetime mortgage has risen in popularity, as it gives homeowners the freedom to take a lump sum secured against their property whilst leaving some in reserve for access later, as and when needed. This means they can opt to leave more of their equity intact to pass on to family as an inheritance. Interest accrues only on the money actually drawn down and on earlier interest.

A 'no negative equity' guarantee is a safeguard

The guarantee is that the loan plus the interest can never exceed the value of the property. So if you move into care or die, your dependants or beneficiaries won't be faced with extra debt.

A joint plan can protect your interests

A joint plan gives equal rights to either party to continue to live in a shared home if the other dies or needs to move into long-term care.

The plan with the lowest interest rate may not be the best

Plans come with a variety of features and benefits, and it's important that your plan meets your needs. For instance, some allow borrowers to make monthly interest payments to avoid the interest rolling up.

Understand the costs

These vary from one provider to another and may include a set-up or administration fee, solicitors' fees and, depending on the option you choose, surveyors' fees for carrying out a valuation of your home.

Your benefits may be affected

If you receive means-tested benefits, your entitlement to them could be affected if your circumstances change and your income or savings increase. Seek advice on how to release equity without affecting your benefits.

Important information

You will need to take independent legal advice prior to completion of the any plan. We recommend that you take legal advice regarding any recommendation as this will fundamentally affect the value of your estate, your Will and any other plans in place in the event of death.

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