



# EQUITY RELEASE

## DO I TAKE THE PLUNGE?

Retired people looking for a boost to their income can use the value of their home to access cash.

An equity release mortgage against your property – a specialist loan designed for the over 55s – can help raise money without having to sell up and move.

The most popular form of equity release is a lifetime mortgage, which allows you to access a lump sum or a series of flexible payments. You are charged interest on the sum you receive, which is usually only repaid when you die or enter long-term care.

Equity release is estimated to provide approximately £1 in every £90 spent by retired people, according to a 2021 study by the Centre for Economics and Business Research<sup>1</sup>.

Homeowners use the money for a variety of reasons such as funding home and garden improvements or to simply establish a savings buffer.

According to the latest data<sup>2</sup>, in the first half of this year, the average amount released for home or garden renovations was £14,082, reflecting a decline from the same time in 2022 (£17,978) due to lower LTVs, higher interest rates, and cautious borrowing attitudes.

Another popular option is to help grown-up children with a house purchase or general finances.

Equity release can be used to clear debts – either an existing mortgage to eliminate having to make monthly repayments or reduce or clear any outstanding unsecured debt.

The money released can also be used to purchase a property – either a new home, second property or holiday home.

However, releasing money tied up in your home later in life is a big decision and can financially impact you and your family in the future.

So you must weigh the pros and cons, and consider alternatives before deciding.



## THE BENEFITS

### Tax-free cash

Unlike most other income, money from equity release is completely tax-free.

### Negative Equity guarantee

You'll never owe more than the value of your home thanks to the Negative Equity guarantee scheme, as long as you take out a loan provided by a lender who is a member of the Equity Release Council.

### You don't need to move

There's no need to sell up if you use equity release, so you can stay in the home.

### No monthly repayments

You don't make monthly repayments – unless you choose to do so. Instead, the unpaid interest is added to your loan.

### Flexible features

You can reduce or avoid paying compound interest by making voluntary partial repayments when you can.

You also have the freedom to repay the loan in full with no early repayment charge (ERC) after a fixed period for most products.

Some even offer the ability to ringfence a guaranteed minimum inheritance amount to leave behind to loved ones.

### Still own your home

You still own your home and can continue living there until you go into long-term care or die. The property will then be sold to repay everything that you owe.

## POTENTIAL CONS

### Debts will accrue

If you choose not to make monthly repayments, the unpaid interest is added to your loan, which rolls up over time and increases the size of your original debt.

### Less inheritance for family

Drawing on the value of your home – an asset – will reduce the value of your estate and mean there's less money to leave to beneficiaries.

### Equity release isn't free

Lifetime mortgages typically come with charges, including lender fees, solicitor fees and those you pay to your adviser. These all need to be factored into the overall cost. And if you choose to repay all or part of the loan early, there may be an ERC, depending on the terms of the deal.

### It can impact on benefits

The money you release from your home with a lifetime mortgage can affect your entitlement to means-tested state benefits. Again, this must be factored into calculations.

### Loans are getting more expensive

Interest rates on equity release loans have been rising this year in line with the Bank of England raising rates, making it more expensive to borrow money.

### Plan of action

You should take professional advice to make sure you fully understand the pros and cons of equity release and whether it's the right solution for you. If you're interested in equity release, talk to your Equity Release specialist for advice on whether it is the best option for you and to find the best deal. If not, they can help you explore alternative solutions that suit you and your family better.

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<sup>1</sup>[https://www.legalandgeneral.com/landg-assets/personal/retirement/\\_resources/documents/more-money-in-retirement/reports/da1445.pdf](https://www.legalandgeneral.com/landg-assets/personal/retirement/_resources/documents/more-money-in-retirement/reports/da1445.pdf)

<sup>2</sup>Mortgage Advice Bureau Later Life's Market Monitor Report