Altura
Mortgage Finance

Thinking of releasing equity from your home? Here's what you need to know

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As you approach retirement, your home is likely to be one of the most valuable assets you own.

So, it's only natural that you might be thinking about how you can use the value in your home to live the life you want in your later years.

> Funds from equity release account for £1 in every £90 spent by retired people within the UK.
>
> Source: Legal & General

Figures from Canada Life show that homeowners across England, Scotland and Wales are sitting on more than £800 billion of equity that they could potentially release. This could be used to gift to loved ones, for home improvements, to pay off debts, or to supplement income in retirement.

If you're over 55, equity release enables you to withdraw tax-free cash from the value of your home.

You can take the money as a single large lump sum or as a series of smaller payments, and use it in a wide range of practical ways, including:

- Helping a child or grandchild onto the property ladder
- Home improvements
- Big one-off purchases such as a holiday or new car
- Pay off debt
- Reduce a potential Inheritance Tax bill
- Paying off an "interest-only" mortgage
- Maintain your chosen living standard in retirement.

In this guide, you'll find lots of useful information about how equity release works, the many ways you can use the tax-free cash, the benefits of equity release, and why working with an expert is so important.

Wide experience of helping clients to release equity

If you're thinking about releasing equity from your home, we can help.

You'll benefit from the peace of mind that we're fully regulated, and have decades of experience in the mortgage industry.

Get in touch for a no-obligation chat about how we could help you.

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Withdraw tax-free cash from your home

1 in 20 homeowners currently use equity release to fund retirement.

This is anticipated to almost double to 1 in 10 based on the anticipated plans of younger homeowners.

Source: Legal & General

Equity release could be a great option for you if you:

- Are aged over 55
- Own your home.

It enables over-55 homeowners to withdraw tax-free cash from the value of their home. The amount you can release is determined by your age and the property value.

You can take the money you release as a lump sum, in several smaller amounts, or as a combination of both.

Often, you won't have to make any repayments as the interest is "rolled-up" and added to the amount you owe. The loan - and any interest due - is then repaid when you die or move into long-term care and the property is sold.

Equity release means there is no need to move and, in most cases, your home still belongs to you.

If you're looking to make the most of the value in your home and to achieve all your goals while you're alive - whether that's travelling the world, renovating your home, helping your children, or simply boosting your income - equity release is designed to help.

It's a great option if you want to use their property as security while you're still alive and then pass it on to your children or family.

Figures from Canada Life reveal that the total amount of housing equity available to homeowners aged over 55 stood at an estimated £811 billion at the end of June 2022.

If you live in London or the south-east, you likely have more equity than other regions.

The average price of a property in the south-east is now £396,000, creating £157.6 billion of potential equity and making it the highest value region in the UK.

This was closely followed by London where the average house price is now £547,000, creating £146.3 billion of total potential equity.

If you're a homeowner in these regions, you can now expect to be able to release around £138,000 and £191,000 respectively.

Source: Canada Life

7 positive ways you can use the money you release from your home

If you have money tied up in your home it can be frustrating, especially if you would benefit from using that value for another purpose.

This is why more and more over-55s are turning to equity release as a way of releasing tax-free cash.

There are lots of reasons why you might want to access the money in your home.

1. Helping your children or grandchildren

2022 research from Aviva found that more than half of over-55s want to see the benefit of giving significant financial help to their family while they are still alive, rather than leave an inheritance in a will.

So, you might want to help children or grandchildren by contributing towards the cost of their university education, or providing some or all the deposit to help them to buy their first home.

This approach means your family can receive the financial help when they really need it - not on your death, which might be many years or decades in the future.

You can also see the positive benefit of your gift during your lifetime.

2. Large one-off purchases

Many people choose to use the value in their home to pay for larger, one-off purchases. This might be to replace your car, to go on a round-the-world holiday, or even to fund the purchase of a second property or holiday home.

3. Pay off debt

Having debt - things like credit cards or personal loans - can strain your savings once you retire and be difficult to pay off. Interest charges can also become eye-wateringly high.

So, you may want to repay any debt that you owe, enabling you to begin your retirement on a strong financial footing.

A 2022 report by Legal & General outlined the most common reasons homeowners used equity release:

- To finance home improvements (26%)
- To support costs such as medical expenses (17%)
- Maintaining living standards in retirement (16%)
- Paying off personal debt (16%).

Source: Legal & General

4. Make improvements to your home

Whether you'd like a new kitchen or bathroom, or you wish to make adaptations to your home to enable you to continue living there despite a medical condition, equity release can help.

It can provide you with the funds to make changes to your home that mean you don't need to move. You can adapt your property as you need to, so you can live there comfortably.

5. Supplement your income in retirement

In 2022/23 the new State Pension in the UK is £185.15 a week (around £9,627 a year).

While you may also have made your own provision during your working life, you may not have quite the income you'd like to live your desired lifestyle.

Indeed, research published by *MoneyAge* revealed that around 85% of workers are not saving at levels likely to deliver an acceptable standard of living in retirement.

So, you may want to take some tax-free cash from your home just to boost your income in later life, enabling you to live the lifestyle you want to.

6. Mitigate the effects of Inheritance Tax (IHT)

If your estate is worth more than £325,000 (or £500,000 if you plan to leave your home to a child or grandchild) your beneficiaries may face an IHT bill when you die.

Equity release can be a useful option if the value of your estate is likely to lead to an IHT liability.

For example, you could use the cash to make gifts to family and reduce the value of your estate before you pass away, helping to mitigate the effects of IHT.

It may also enable you to retain more of your accumulated pension wealth which, crucially, falls outside your estate for IHT purposes and can so be passed on tax-efficiently.

7. Repay an interest-only mortgage

If your existing mortgage is on an "interest-only" basis, you can use equity release to repay this loan later in life - provided you have sufficient equity in your home.

For example, if you're coming to the end of your interest-only mortgage term, and you don't have a savings plan in place to pay off the debt, you could consider equity release.

Expert view

"Over more than three decades I've met many 'asset rich, cash poor' clients.

"While they had plenty of money tied up in their home, it was largely useless to them as they needed to access the cash now to help family or to maintain the lifestyle they wanted.

"Equity release can be really beneficial to older clients, as it means they can use the value they have built up through years of property ownership.

"It can help clients to give a family member a leg-up onto the property ladder, pay for one-off expenses, and live the lifestyle they want because they have the income available to do so."

Kevin Curtis, equity release specialist, Altura

The 2 main types of equity release

Lifetime mortgage

A lifetime mortgage allows you to release some of the equity in your home at any time during your lifetime, provided that there is sufficient equity in your property to cover the cost of releasing this money.

This is a long-term loan secured against your home's value, which means you're still the owner.

You don't typically need to make any monthly repayments. Instead, interest is added each year, both to the initial loan amount and any interest previously added.

The loan is repaid when you die, or move into long-term care, when the property is sold.

Home reversion

A home reversion plan offers an alternative way for homeowners aged 55 or over to access their property wealth without having to move out or sell their home.

Here, a company will buy your home or a part of it. In return you receive a cash lump sum or an income.

You can continue living in your home, either rent free, for a fixed rent or a rent that will increase by a specified annual percentage.

The property owner can't sell your home until you die, move into care, or your permanently vacate it.

Typically, the older you are when you start a home reversion scheme, the higher the percentage you'll get of your home's market value.

Expert view

"Our report highlights that homeowners are increasingly planning to use equity release or other ways of accessing property wealth to help fund later life.

"This shift reflects the boom in property values, which have made our homes such an important asset, but it also demonstrates how far the equity release market has come through the introduction of product innovations and how it has become a more suitable solution for a wider range of people."

Craig Brown, CEO, Legal & General Home Finance

Not sure which approach is right for you? Get in touch for a no-obligation chat about how we could help you.

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Releasing equity is a simple process - and we can help

Step 1

As a first step, you'll need to speak to a mortgage expert or financial adviser who is qualified to advise on equity release products.

Your adviser will check your eligibility and take the time to understand whether equity release is right for you.

Step 2

If you're eligible for equity release, and happy to proceed, we will make sure you are appointed a solicitor who specialises in equity release. They will act on your behalf and offer independent legal advice.

We will then help you to submit your application to your chosen lender.

Step 3

Your lender will contact you to arrange a valuation of your home.

Once your lender has approved your application and completed your valuation, they'll send the offer and terms through to your solicitor.

Step 4

If you're happy with the offer, your lender will release your money to your solicitor.

Your solicitor will then release the money to you as you agreed with your lender, for example as one lump sum or the first smaller sum of a series.

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7 powerful benefits of releasing equity

1. The money you release is completely tax-free.
2. You can stay in your home without having to make any sacrifices, downsize or move to a cheaper area to release the money in your home.
3. Most lenders offer a “no negative equity” guarantee so you'll never owe more than the value of your home when it is sold.
4. There's typically no need to repay the loan until you pass away or move out of your home and into long-term care.
5. If you wish to repay some of your loan early, there are flexible repayment options for you to choose from.
6. After taking equity release, you can still move house.
7. You can potentially protect an inheritance for your family.

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A case study

Clive and Deborah were 66 and 64, retiring, and thinking about repaying their mortgage by using a lump sum from their pensions.

Instead of repaying their mortgage using their pension assets, we suggested that Clive and Deborah consider repaying this debt using equity release.

This would enable the clients to repay their existing mortgage, meaning they no longer have a significant monthly commitment to meet. As the interest on their equity release loan rolls up, they don't have to make a repayment.

They also decided to release further equity to supplement their income from savings, ISAs, and investments, leaving their pension wealth largely untouched.

The advantage of this is that Clive and Deborah can pass their pension wealth to their two adult children without worrying about Inheritance Tax, while simultaneously reducing the value of their estate by using their equity release sum, savings, and investments to provide an income.

Additionally, the estate they can leave to their children is larger because the debt that must be repaid at the end of the equity release plan effectively reduces the value of the client's only IHT-chargeable asset – their home.

Some factors to consider

While there are lots of positive reasons to consider equity release, there are also some drawbacks to consider.

1. There may still be an Inheritance Tax liability

While making gifts can help to reduce the value of your estate for IHT purposes, if you die within seven years of making some gifts, IHT may still be payable. Consequently, there may still be an IHT charge on your estate.

Additionally, even if you do make gifts your estate may still be worth more than the IHT threshold on your death, leading to a tax charge.

2. Your children might not inherit as much as they expected

Interest on a lifetime mortgage is added to the amount you owe each month. This means that the amount you owe will quickly increase over time, reducing the equity left in your home.

The effects of compounding magnify this, as you end up paying "interest on interest".

When it comes to sell your home, the cumulative effect of this interest could mean the total debt is much higher than your loved ones expect, potentially reducing their inheritance.

An example of interest roll-up

For example, one year after taking out a £40,000 lump sum with an interest rate of 4%, the interest would be £1,600. This is added to your initial cash amount, so your balance at the start of the second year would be £41,600.

Another year's interest on this at 4% would be £1,664. So, the amount you owe after two years would be £43,264.

3. You'll be responsible for the upkeep of your home

As the debt will be repaid when your home is sold, it is your responsibility to ensure that your property remains in good condition. So, you will have to consider the upkeep and maintenance costs of your home.

4. Interest rates might be higher than other options

Interest rates for equity release can be more expensive than more traditional mortgages.

So, if you can afford to make a monthly repayment then there may be other lending options that are more appropriate - particularly if you're younger.

Additionally, if you pay back some of the loan early, you may be subject to an "early repayment charge" (ERC).

5. Releasing equity may impact your entitlement to means-tested state benefits

Local authorities and the government use your income and savings to decide if you need means-tested state benefits.

Consequently, taking equity release could result in your entitlement to means-tested state benefits being reduced or removed. It can also have an effect on any funding you might receive for care services.

Expert view

"Equity release is a lifelong financial decision, so it is essential that people seek financial advice and talk through their decision with loved ones before agreeing to a product."

Alice Watson, head of marketing and insurance, Canada Life

30 years' mortgage industry experience

Releasing equity from your home can be a big and far-reaching decision.

While it may enable you to accomplish all your life goals, it could mean your loved ones don't inherit as much as they expected.

So, it's vital that you get the right advice before you commit.

Our equity release expert, Kevin Curtis, has more than 30 years' experience advising clients on their mortgage requirements. He has spent decades helping families with high-quality advice covering a wide range of mortgage needs.

Whatever your circumstances, we can help you to make the right decisions for you and your family.

For a no-obligation chat and to find out how Kevin and Altura can help you:

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Please note

Your home may be repossessed if you do not keep up repayments on a mortgage or other loans secured on it.

Buy-to-let (pure) and commercial mortgages are not regulated by the FCA.

Think carefully before securing other debts against your home.

Equity Release will reduce the value of your estate and can affect your eligibility for means-tested benefits.

The FCA does not regulate estate planning, tax planning or will writing.

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