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What is Equity Release and Later Life Lending?

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Foreword from Paul Welch, Founder & CEO of largemortgageloans.com

At largemortgageloans.com our specialism is in helping people source large and specialist loans. We know that society is changing and that the mortgage market needs to adapt and be as flexible as possible to reflect these changes.

According to the latest figures from The Office of National Statistics, life expectancy in the UK is now 79 years of age for men and 82 for women[1]. The figures show that nearly half a million over 70s in the UK are still in full or part-time work. That equates to nearly one in 12 of the population in their 70s. To put that into context, ten years ago that figure was one in 22[2]. We are all living longer and working past retirement age is often a choice for many who find they hit 65 and don't want – or need – to slow down.

A whole area of the mortgage sector is quietly expanding to meet the growing demands of people later on in life. Unlike the countless stories we often hear about first time buyers, later life lenders are less spoken about, apart from the occasional high-profile case that makes it into the media. However, later life lending is an area in which we have seen huge growth in recent years and lenders are increasingly creating tailored products to cater for this area of the market. The traditional model we ascribed to no longer applies in today's society. Decades ago, it wasn't unrealistic or unachievable for a couple to buy a family home as their first house and remain there for several decades without needing to move. In the process, they paid off capital repayment mortgages over 30 or 35 years and were mortgage-free come retirement age.

This guide is designed to walk you through the main types of products available through Equity Release and Later Life Lending. As always, every situation is unique and the best advice you will receive is by getting in contact with one of our fully qualified Equity Release advisers. By speaking with them about your individual requirements, they will be best placed to offer advice, tailored to your individual situation.

We hope you find this guide helpful and please don't hesitate to get in touch with our team if you would like to discuss anything further.

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Fundamental change is needed to reflect society

Rising house prices mean that the average age of a first time buyer is now 32[3] years old and the reality for many of those buyers is that they will be taking on an interest only mortgage for 30 or perhaps 35 years.

Getting on the property ladder usually means purchasing a flat or smaller property before upsizing when family comes along, stretching finances even further. Therefore people are often signing up to a 30 or 35 year term well into their 30s or early 40s. This means that – unless their circumstances change dramatically – there is little chance that they will pay off their mortgage come the age of 65.

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AVERAGE AGE OF A FIRST TIME BUYER

65 is no longer the magic number

This conundrum received a lot of press in 2018 when the fate of one couple hit the headlines.[4] Their high street lender was not willing to extend the term of their interest only mortgage for another ten years, as it would exceed their upper age limit of 75. The couple were facing the prospect of selling their home with little equity to buy another, until their MP intervened and the lender offered a two-year extension.

This is where a large network of lenders can be of such benefit. The largemortgageloans.com panel of lenders has huge breadth, with a number of lenders who provide flexible products which can be manually underwritten and tailored to the needs of older lenders.

When our clients are high net worth individuals, often this means working with a private bank which may take a wider view on client finances and can consider all types of assets including property, stocks, shares, capital or even jets, yachts and art.

Retirement can be an expensive business

For those who have managed to pay off their mortgage, it doesn't guarantee a prosperous retirement. Many of our clients who have hit this 'holy grail' of being mortgage free still find they would like more cash to call upon in retirement. Decades of low interest rates have hit savers hard and helping younger generations has become more and more of a priority for many of our clients.

In fact, one in 10 grandparents have gifted their grandchildren a lump sum averaging £15,000.[5]

Legal and General's annual report on 'The Bank of Mum and Dad' (BOMAD) says that 27% of buyers will receive financial help from family and friends, and puts the national average contribution at £18,000. In London, this rises starkly to an average of £30,800.

It's not just the youngest buyers who are receiving help. It's often those in the so-called 'squeezed middle' with young children and older parents who are benefitting from BOMAD. 43% of buyers aged 35 to 44 received financial help from family and friends, with more than a quarter (26%) of those aged 45 to 54 still relying on the Bank of Mum and Dad.[6]

Asset rich and cash poor? Equity release could be an option

How are these sums being handed on? It's not necessarily all through capital in the bank. Many clients have found that the family homes they bought in the 1970s or 1980s are now worth sums they could never have imagined; however they don't want to move. Often it can be because they need the space; two fifths (five million) of the UK's grandparents over the age of 50 provide regular childcare for their grandchildren[7] and so they still need to retain a family home to accommodate three – or more – generations.

What is Equity Release?

Equity release is an umbrella term for a range of products which allow homeowners to access the cash (equity) tied up in their homes. These products are highly regulated for the protection of borrowers by the Financial Conduct Authority, Prudential Regulations Authority and Equity Release Council. They are generally available to people aged over 55 and allow money to be taken as a lump sum, in several smaller amounts, or a combination of both. Bear in mind, the more equity you take, the more interest is paid.

There are two main types of Equity Release;

Lifetime Mortgages or

Home Reversion.

What is a Lifetime Mortgage?

A Lifetime Mortgage generally allows you to release up to 60% of the value of your home (dependent on your age and value of your property). You can choose to ring-fence some of the value of your property for your family to inherit.

You retain the right to live in your home for the rest of your life or until you move to long-term care. You also have the right to move, as long as the new property satisfies your lender's requirements. The interest rate at which you borrow this money is either fixed or capped at an agreed rate. Sometimes the interest is 'rolled up' meaning it's only payable at the end of the term. However, many plans now offer the ability to pay some or all of the interest along the way, if the borrow chooses to do so.

These products have a 'no negative equity guarantee' which protects the borrower from fluctuations in the housing market. This guarantee means that, when your property is sold and all fees have been paid, even if the amount left is not enough to repay the outstanding loan, neither you nor your estate will need to pay any more.

What is home reversion?

Home reversion is another type of Equity Release, which means that you sell all or some of your home to a reversion provider. In return, you will either receive a lump sum or regular payments. Generally this type of product is restricted to over 60s or, in some cases, over 65s.

Like a Lifetime Mortgage, you will retain the right to live in your home until you pass away or move to long-term care and you can also move, provided your reversion provider is happy with the property you find. There's also a 'no negative equity' guarantee but you will likely be required to maintain the property in a good state of repair, so it's important to be clear on that.

How do the sums add up?

Home Reversion providers will generally offer between 20% and 60% of the market value of the house (or the portion you have agreed to sell). Therefore, you do pay a price for this type of product, but it will mean you can stay in your own home and avoid the costs of moving.

This type of product can also be incredibly helpful to older people who have invested money to make their homes work for their needs. For instance, elderly or disabled clients who have made significant changes to their homes often find the cost of moving and making these sorts of changes again costly and – often more importantly – disruptive at their stage of life.

The option to remain in your home can be the biggest benefit of all

We recently worked with an elderly couple where the wife was the main carer for her disabled husband. They had converted their home for his needs and, although her sight was failing significantly, the wife knew the layout of the home so well that she could continue looking after him in their home. Moving may have caused the couple into long-term care and the prospect of that – along with the cost of converting another property – meant that an equity release arrangement would have suited their needs perfectly.

It's key to consider all of your options

Like all big financial decisions, there are a number of considerations to bear in mind if you are considering Equity Release.

Equity Release can be more expensive than a traditional mortgage, because it is a specialist product which provides the benefit of allowing you to enjoy your home for the rest of your lifetime, or until you move into long-term care.

Think long-term

We always counsel clients to think about where they expect to be in 10 or 20 years' time. You may wish to release equity in your 60s but find that you're still sprightly 30 years later – we are all living longer after all! Therefore it's vital to realise what the long-term effects of Equity Release are.

Like with all financial products, there's usually an arrangement and broker fee paid when you enter into an agreement. You can however, change your mind. It's important to work with a specialist, qualified broker who can guide you on the implications of doing so, as there may be early repayment charges to consider.

It's also important to seek advice from an accountant or Independent Financial Adviser, as the money you receive from equity release might affect your entitlement to state benefits.

What are RIO mortgages?

Yes, they may sound incredibly exotic, but RIO mortgages stand for Retirement Interest Only mortgages. They have become more commonplace since March 2018, when the Financial Conduct Authority (FCA) reclassified them as standard mortgages. Previously they had been classified with Lifetime Mortgages, as there are some similarities. However, after consultation with the mortgage market these changes came into effect, meaning there is now a wider range of products on the market.

How do RIO mortgages work?

When you take out a RIO mortgage, you commit to using your home as the repayment vehicle for the loan. You only have to prove that you can cover the monthly interest payments, meaning these loans are often more accessible to those on a retirement income.

Unlike standard mortgages, the vehicle for repaying the loan is your home and there is no fixed end date. On your death or entry into full-time care, your home is sold and the loan repaid.

Who is eligible for a RIO mortgage?

As the name would suggest, they're targeted to people who are in – or approaching – retirement. Typically, the age limit is over 55s but some products don't have a minimum or maximum age requirement.

The FCA wants more people to consider RIO loans due to the problems that have come to light with interest only borrowers hitting retirement age and having no means to pay off their loan. Because RIO mortgages factor in the value of your home, this problem is solved. As the borrower services the interest during the lifetime of the loan, it also often means that there is more capital remaining in the property to pass on through inheritance, which many consider to be an obvious benefit.

For many with a secure retirement income, such as a fixed pension, RIO loans can be more suitable than equity release products. They're also offered by general mortgage brokers and lenders, whereas lifetime mortgages tend to only be offered by specialist equity release providers.

The market is adapting its needs to benefit societal change

As Later Life Lending becomes more mainstream, we're finding lenders are more and more open to tailoring their products to individual situations. For instance, some older borrowers might prefer the RIO option, but paying off the monthly interest will leave them financially challenged. Therefore, there are now 'hybrid' products which allow you to pay off some of the monthly interest, and the rest gets 'rolled up' over a period of time and added to the overall loan. When your house is sold, this part of the loan will be paid off by the sale of the property.

Working with the right broker will help you identify which is the best option for your specific circumstances, and a broker such as largemortgageloans.com is used to dealing with lenders on a daily basis to negotiate bespoke packages for our clients.

Using the 'family bank' to your best interests

Much is spoken about of 'The Bank of Mum and Dad' and, in response, there are a number of specialist products and providers offering what is called a 'Family Mortgage'. These mortgages usually allow any close family member – including step families, aunts, uncles, brothers and sisters as well as parents and grandparents – to share their finances to help other members of the family onto the property ladder. Usually this is in one of two ways; either through depositing funds into a designated account, or using a portion of the equity of your home. Generally around 25% capital or property equity is needed to secure this type of product, and a minimum 5% deposit is needed to put down against the property. This sum can be gifted to the buyer.

What are the benefits of a Family Mortgage?

This type of product usually means that the property buyer – usually a younger member of the family – will enjoy lower interest rates and therefore lower repayments. The family member helping out will still be able to contribute a legacy to their relative, without needing to move home or downsize in order to do so.

In some cases, we've found that these mortgages are also being used by children helping their parents to buy properties in retirement, which would otherwise be out of their financial grasp. According to Age UK, 40% (5 million) grandparents aged over 50 regularly provide childcare for their grandchildren, so the idea of moving to a smaller home later in life can be a misnomer. Children needing this help from grandparents are sometimes the driver in securing their parents in a family-sized home to allow for childcare and sleepovers.

It's key to consider all of your options

Like all big financial decisions, there are a number of considerations to bear in mind if you are thinking about Equity Release or another form of Later Life Lending. Our team at largemortgageloans.com can help to talk you through all of your options and give you honest and up-to-date advice, based on years of experience and an unrivalled network of lenders.

We have access to more than 200 finance providers all over the world, from high street names to challenger banks, building societies, boutique lenders and specialist private banks.

Most importantly, we want to ensure that all of our clients get the best possible deal and rate for their circumstances. That's our commitment to each and every client, no matter how complex their situation. Please don't hesitate to get in touch with our team of expert advisers, who can provide you with bespoke advice, tailored to your individual circumstances.

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Ready to talk through your options?

Call **0207 519 4900** or email **enquiries@largemortgageloans.com** and speak to one of our friendly, equity release regualted advisers today.

REFERENCES:

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YOUR HOME OR PROPERTY MAY BE REPOSSESSED IF YOU DO NOT KEEP UP REPAYMENTS ON YOUR MORTGAGE.

Home reversion plans and lifetime mortgages are complex products. To understand the features and risks, ask for a personalised illustration.

Equity release will reduce the value of your estate and may leave nothing to pass on as an inheritance.

A cash lump sum or income from an equity release scheme may reduce the borrower's eligibility to state benefits.