Coast Financial Limited`s guide to

Raising money from your home

- No Selling.
- No Jargon.

Just the facts about equity release & later life mortgage schemes.

This guide is for you if…

You want:

to know how you can use the value of your home to raise additional income or a cash lump sum, or both.

It is about the various options available to you and:

- Explains how you use them to raise money from the value of your home.
- Points out some of the risks involved; and
- Answers some of the questions you may have.

Contents

About us.

At Coast Financial Limited we are truly independent financial advisers, with access to the whole market when sourcing and advising our clients.

We specialise in later life advice, Retirement Planning, Long Term Care and Equity Release as well as Lifetime Mortgages.

We do not charge any additional fees for our Equity Release or Lifetime Mortgage advice, as we are paid by the lender.

The only fees you will pay are the fees charged by the lender, in the form of a survey or product arrangement fee, and your solicitor.

In most cases, the basic valuation will be free of charge as part of your application.

We have access to fixed fee solicitors so you will know exactly how much you are going to pay for every step of the process.

It is of paramount importance that you are fully aware of the options available you and fully understand the risks involved so you can make an educated, informed decision.

There are thousands of borrowers who are not in a position to repay the outstanding capital of the current mortgage, leaving them with the prospect of having to sell up and downsize unless they can re-mortgage or find another option.

Hopefully, this booklet will help them make an informed decision and guide them through the options that are available.

What is a retirement interest-only mortgage (RIO)?

Retirement-interest only mortgages (RIOs) are a relatively new set of products designed to help older borrowers who may struggle to get a standard residential mortgage. They allow you to borrow against your property and only pay back the interest (and not the loan itself) each month.

RIOs are very similar to standard interest-only mortgages but there are some key differences. With most RIO mortgages, you only repay the loan when you sell your property, move into residential care or die.

But some retirement-interest only mortgages carry terms like a regular mortgage, meaning you either pay them back after a set number of years or when you reach a certain age - 90, for example.

Rather than the onerous steps you have to take to prove your income with a standard residential mortgage, you only have to prove that you can afford the interest.

Some retirement interest-only mortgages allow you to repay some capital as well as interest. This will cut down the size of your loan over time, meaning that more of your property can be passed onto your loved ones.

How much can I borrow with a retirement interest-only mortgage? Each lender has different limits on how much you can borrow against your property. If you're borrowing on an interest-only basis, you're likely to be able to borrow less than if you get a deal where you also pay down the loan.

For example, you might be able to borrow 50% of the value of your property on an interest-only basis, or 65% on a capital repayment basis. There will be other requirements, too, such as a minimum property value, minimum income and minimum loan size.

The amount you can borrow will be based upon an affordability assessment, looking at your income and outgoings to make sure you can keep up repayments once your only sources of income are from pensions, savings or investments, and not employment.

Retirement interest-only mortgage vs equity release

Retirement interest-only mortgages share some similarities to equity release, in that they both allow you to tap into your property's value you to access cash.

With equity release, you borrow a portion of the property's value, but are not required to make monthly repayments (although some deals now allow you to do this).

Instead, the debt is repaid once you die or move into long-term care and the property is sold. These products are typically called 'lifetime mortgages'.

Because you don't make repayments, the debt grows over time and can erode the value of your property. This is not the case with a retirement interest-only mortgage.

Let's look at an example. You own a property worth £200,000. You want to borrow 50% of this, meaning a loan of £100,000. In 15 years' time, your property is worth £300,000, and you go into care, so the loan needs to be repaid.

The interest rate is 5%. Equity release Your monthly repayments: £0 Total value of the loan after 15 years: £211,370 How much is left after repaying the loan: £88,630 Retirement-interest only Your monthly repayments: £417 Total value of the loan after 15 years: £100,000 How much is left after repaying the loan: £200,000 Total amount of interest paid: £75,055 With equity release, there will be less equity in your property to pass onto your family after you've died than with a RIO mortgage.

How equity release schemes work

The equity (value) you have in your home is its open market value less any mortgage or other debt held against it. Equity release is a way of getting cash from the value of your home without having to move out of it.

There are two main types of equity release scheme – **lifetime mortgages** and **home reversions**. See the *Jargon buster* for an explanation of some of the words in this guide.

Equity release schemes are complex, and you should always consider taking professional advice before making any commitment.

Key Points

With an equity release scheme, you:

- Have to be over a certain age (typically over 55) and own your own home.
- Can get a cash lump sum, a regular income, or both, to use as you wish.
- Continue to live in your home; and
- Continue to be responsible for maintaining your home.

With a lifetime mortgage you:

- Take out a loan that is secured on your home (that is, the lender knows they can get their money back by selling your home)
- Continue to own your home, although you will have to pay back the mortgage on it
- Repay the mortgage from the proceeds of the sale of your home when you die, or if you move out of it (perhaps to a care home).

With a home reversion you:

- Sell all or part of your home to a reversion company or an individual.
- No longer own your home but continue to live there as a tenant of the reversion company or individual.
- The home is sold when you die, or if you move out of it (perhaps to a care home).

How do you get your money?

You will normally get your money as a cash lump sum to use as you wish. However, if you want an income, you have various options:

- You can invest the lump sum in an annuity or some other investment to provide a regular income (with some schemes the provider does this for you).
- Your scheme may provide a regular income that is not linked to an annuity or investment.
- Other schemes provide an income (or lump sum) only when you need it, on a drawdown basis.
- Some schemes combine these features. For example, you can take a lump sum at the start, and then draw down income later.

Key Points

Equity release schemes can be helpful, but they are not suitable for everyone. You may consider these alternatives if you need money:

- Selling your current home and buying a smaller property – you would keep full ownership of your new home and avoid paying interest on a loan.
- Contacting your local council or other organisations to check if you could claim money to pay for home repairs or improvements – see *Useful Contacts*.
- Claiming any State benefits you may be entitled to – see *Useful contacts*.
- Tracing any private pensions or investments that you may have lost track of – see *Useful contacts*.
- Using your savings or selling any investments – but consider getting advice before doing so – see *Useful contacts*.

Different types of equity release schemes

Lifetime mortgages

These are the main types currently available:

Roll-up mortgage

The loan you get can be a regular income or a cash lump sum.

Fixed or variable interest is added to the loan monthly or yearly. But you do not pay the interest until your home is sold. This could be when you die or need to go into a care home.

Interest is charged on the loan and also on all the interest that has already been added. Because of this, the amount you owe can grow quickly, especially if you take a lump sum at the start – see the table below.

Number of years since you took out the loan	Amount you owe if you take a lump sum of £45,000.00 at the start and if the mortgage interest rate is:		
	3% a year	4% a year	5% a year
5	£52,168	£54,750	£57,433
10	£60,477	£66,611	£73,301
15	£70,108	£81,043	£93,552
20	£81,275	£98,601	£119,399

The other type of roll-up mortgage is a drawdown mortgage. This means that instead of taking the loan as a single lump sum at the start, you take smaller amounts over time.

These amounts can be taken at regular intervals or as and when you need them.

Because you are taking smaller amounts over time, the total amount you owe will grow more slowly than if you take a lump sum at the start.

A roll-up mortgage may give you a higher income than a home income plan (see below) as you are not paying back interest on the loan until it is repaid.

Interest-only mortgage

The loan you get is a cash lump sum but you pay interest on the loan each month at a fixed or variable rate.

If the interest rate is variable and your pension or other source of income is fixed, you may find it more difficult to meet your repayments when interest rates rise.

The amount you originally borrowed is repaid when your home is sold.

Fixed repayment mortgage

The loan you get is a cash lump sum but instead of being charged interest on the loan, you agree that when your home is sold you will pay the lender a higher sum than you borrowed.

This higher sum is agreed at the outset.

How much higher it is will depend on your age and life expectancy.

The lender takes this higher sum in repayment for the mortgage when your home is sold.

However, when you die, the lender may charge interest on this higher sum from the date you die until the mortgage is actually repaid.

Home income plan

The loan you get is a cash lump sum. The lump sum is used to buy an annuity that gives you a regular income, usually fixed for life.

From this income you pay the interest on your loan, usually at a fixed rate, and the rest is for you to use as you wish.

The amount you originally borrowed is repaid when your home is sold.

The extra income you will get is fairly low if you take the annuity soon after retirement, so this type of scheme is usually only suitable if you are older.

The older you are when you buy an annuity, the higher the income you'll get, as there are fewer years over which the income will need to be paid.

Shared appreciation mortgage (SAM)

Some lifetime mortgages include a shared appreciation element. This means you agree with the lender that they can have a share in any increase in the value of your home when it is sold in return for them charging you less or no interest on the loan.

Home Reversions

A reversion company buys, or arranges for someone else to buy, part or all of your home.

You get the sale proceeds as a cash lump sum, an income, or both. You can invest the lump sum yourself as another way of providing an income – some schemes can do this for you.

You will normally be paid less than the full market value of your home – typically between 35% and 60% - because the buyer cannot re-sell the property until you die or until you move out (perhaps into a care home).

The older you are when you start the scheme, the higher is the percentage you'll get.

The minimum age for these schemes is usually higher than for lifetime mortgages.

You also usually get a lease giving you the right to carry on living in the home for the rest of your life (or until you no longer need it).

You should check the terms of the lease to make sure you understand what you have to do.

Usually you do not pay rent, or if you do it is a token amount. But with some schemes, you can pay a higher rent in return for more money from the sale.

Once the scheme has started, the buyer of your home benefits from any rise in its value.

If you have only sold part of your home, you benefit from any rise in the value of the part you have kept.

Key things to think about

Getting financial advice

Firms advising on equity release schemes must be regulated by the FCA. This means they must meet certain standards that we monitor, and we take action if they don't.

Their advertisements, product brochures and other literature must be clear, fair and not misleading. You can check if a firm is regulated – see *Useful contacts*.

In addition, you will have access to the Financial Ombudsman Service and the Financial Services Compensation Scheme if things go wrong – see *Useful Contacts*.

Some home reversion providers are not regulated by the FCA.

If you are offered a product by these firms, the adviser should explain to you about the protection you will lose out on.

Information or advice?

When you ask about equity release schemes, the person you speak to will usually describe the product or service to you. You will also receive printed information.

This is general information – not advice specific to your needs and circumstances.

If you are uncertain about which equity release scheme is right for you, then consider getting professional advice.

Buying with advice

FCA regulated firms must only recommend schemes that are suitable for you and take into consideration your needs and circumstances.

Information you will get

They should give you two documents with the sign. These documents contain important information that you should read and understand. The first will explain the service being offered (advice or information); whether you'll have to pay for it; and the product range they offer.

The second (often referred to as the Keyfacts illustration or KFI) will be prepared specifically for you, summarising the important risks and features of the particular scheme.

Because firms must prepare these documents in similar ways, you can use them to shop around and compare different services and schemes. Use them to make sure the deal you get is right for you.

Buying without advice

You do not have to take advice, but if you don't and the scheme you chose turns out to be unsuitable you will have fewer grounds for complaint.

Prepare yourself

Before starting a particular equity release scheme, it's worth asking yourself or an adviser a few things. For example:

- Could it affect your income tax position and entitlement to State benefits? For example, a scheme may reduce your entitlement to State benefits, leaving you less well off than you first thought.
- Could it restrict your options in the future? For example, owing money to an equity release company could leave you short of capital if you wanted to move to a smaller property, or use money from selling the property to pay for long-term care in a private care home.
- If you are investing the lump sum to provide an income?
    - Will the income be fixed or will it vary?
    - Will the level of income be guaranteed or depend on how your investment grows?
    - Could you lose the lump sum invested?
- You should also compare the return on your investment with:
    - The interest rate you will be paying on the lifetime mortgage.

or

- ◦ In the case of a home reversion, how much less than the market value you will get– will the return on your investment make up for the cost of selling your home?

Remember that using an equity release scheme to provide money to invest carries a high risk. If you are considering releasing money to put in a bank account or saving account for emergencies or a 'rainy day', any interest you will get will probably be less than the cost of releasing money from your home – so you'll be using money.

- ◦ How might it affect the amount of money you will be able to leave to your beneficiaries – the people who benefit from your estate when you die?
- ◦ How would inflation affect the value of any fixed income you receive? £100 will buy more today than £100 in ten years' time.

Fees and costs

Typical costs and fees are:

- **Arrangement fee:** £300 to £600 depending on the lender and added to the loan
- **Valuation fee:** linked to the value of the property, but probably around £350 if payable
- **Legal costs:** £550 to £1000 – obtain a quote from a/your solicitor to establish the exact cost
- **Buildings insurance:** £200 to £300 per year, depending on the property
- **Early repayment charge:** if you repay your lifetime mortgage before the end of the contract (for example, before you die or go into care) you may have to pay an early repayment charge. Different lenders may calculate these charges differently, so the amount you pay may also vary
- **Possible rental charges:** with a home reversion you may have to pay rent, but often this is only a token amount.

With a Lifetime mortgage some of these costs can be added to the loan so you pay less up front, but you pay interest on any amounts added.

If you decide to borrow more in future under a drawdown arrangement, your lender may charge further lending fees.

When considering taking advice, the next steps:

Step 1

Find out what your options are, and whether you can get financial help from State benefits, charities or your local council. If you think you need an equity release scheme, consider getting professional advice from a regulated adviser.

Step 2

Make sure you get the two keyfacts documents from your adviser or provider and use them to shop around and get the right deal for you.

Ask questions if anything is unclear. Whether you take professional advice or not, you should satisfy yourself that the scheme you take up is right for you.

Step 3

The provider will assess your application. They will also value the property, check that you are who you say you are and – if you have to make monthly payments – check whether you can afford the payments.

In the case of a home reversion, the provider must ensure any valuation is carried out independently.

Step 4

You will get an offer document. This is your final chance to check you are happy with all the terms and conditions of the scheme. If anything is not clear, talk to the provider. ***Do not sign up for a scheme until you are sure if is right for you.***

If things go wrong

If something goes wrong, contact the adviser or provider to put matters right. They have a procedure to follow when dealing with complaints.

If you're not satisfied with their response, you may be able to take the matter to the Financial Ombudsman Service.

The firm should give you the details of this service. See our **Making a complaint** guide – see *Useful contacts*.

Jargon Buster

Some key words and phrases explained.

Annuity

An investment that converts a lump sum into income that is taxed.

Arrangement fee

A commitment or administration fee that you usually pay the lender to reserve the mortgage funds.

Equity release

A way you can benefit from the value of your home without having to move out – by borrowing against it or selling all or part of it for a regular income or lump sum.

Home income plan

A type of equity release scheme – you sell all or part of your home to a scheme provider in return for regular income or a cash lump sum or both, and continue to live in your home for as long as you wish.

Lifetime mortgage

A type of equity release scheme – a loan secured on your home, which is repaid by selling your home when you die or go into long-term care.

Mortgage

A loan secured on a property.

Negative equity

When the amount you owe the lender is more than the value of your home.

Roll-up mortgage

A loan to which the interest is added each month or year.

Secured

If you do not repay your loan, the lender can sell your home to get it's money back.

Shared appreciation mortgage

Instead of getting some or all of the interest on the loan, the lender takes a share in any increase in the value of your home when it is sold.

Useful contacts

Call rates may vary – check with your telephone provider for their charges.

To order other Moneymadeclear guides, check our Register or for general information or guidance.

Financial Services Authority (FSA)

Consumer Helpline: 08456061234

Minicom/Textphone: 08457300104

www.moneymadeclear.fsa.gov.uk

To report misleading promotions 08457 300 168

Other Moneymadeclear guides

- Getting financial advice
- Making a complaint

Charities

May be a source of financial help with unexpected expenses. Counsel and Care may be able to suggest suitable charities – see below or contact your local council for information about local charities.

Age Concern

For free factsheets:

Freepost (SWB 30375) Ashburton, Devon, TQ13 7ZZ

0800 00 99 66 (freephone)

www.ageconcern.org.uk

- Factsheet 12 Raising income or capital from your home
- Factsheet 13 Older homeowners – financial help with repairs and adaptations

Counsel and Care

For advice about entitlement to State benefits and charities that can give financial help with unexpected expenses:

Twyman House,16 Bonny House, London, NW1 9PG

0845 300 7585

Email: advice@counselandcare.org.uk

www.counselandcare.org.uk

Help the Aged

For Advice about entitlement to State benefits and free information sheets:

207-221 Pentoville Road, London, N1 9UZ

020 7278 1114

SeniorLine: 0808 800 6565 (freephone)

www.helptheaged.org.uk

- Information sheet 21: Equity release plans

Home Improvement Agencies (HIA)

For help arranging home improvements and advice on financial help available.

To find your local HIA:

England

Foundations

Bleaklow House, Howard Town Mill, Glossop, Derbyshire, SK13 8HT

01457 891 909

www.foundations.uk.com

Scotland

Care and Repair Forum Scotland

Suite 25, 135 Buchanan Street, Glasgow, G1 2JA

0141 221 9879

www.careandrepairscotland.co.uk

Wales

Care and Repair Cymru

Norbury House, Norbury Road, Fairwater, Cardiff, CF5 3AS

029 2057 6286

www.careandrepair.org.uk

Northern Ireland

Fold House

3 Redburn Square, Hollywood, Co Down, BT18 9HZ

02890 428314

www.foldgroup.co.uk

Charities

Citizens Advice Bureau

For help sorting out debt problems and advice on State benefits:

Look in the phone book under ‘Citizens Advice Bureau’.

www.citizensadvice.org.uk

and

www.adviceguide.org.uk

Department for Work and Pensions (DWP)

For information about State benefits:

Benefit Enquiry Line

0800 88 22 00

www.dwp.gov.uk

For Information about Pension Credit:

The Pension Service

0800 991234

Textphone: 0800 169 0133

www.pensionservice.gov.uk

Local Authority or Local Council

For information about council tax benefit, home repair and improvement assistance and local charities that might be able to help:

See the local phone book under the name of your council or get contact details from your public library.

The Home Improvement Trust

A not-for-profit organisation that arranges equity release schemes specifically to fund repairs, improvements or adaptations to your home.

Freephone: 0800 783 7569

www.houseproud.org.uk

Safe Home Income Plans (SHIP)

Some equity release providers belong to this organisation. All schemes offered by SHIP members offer a non-negative-equity guarantee.

PO Box 516, Preston Central, PR2 2XQ

0870 241 6060

Email: info@ship-ltd.org

www.ship-ltd.org

Warm Front Plus

Offers grants for people aged 60 or more who are on a low income, or disabled, to insulate their home or to install energy-efficient central heating.

0800 952 0600

HM Revenue and Customs (HMRC)

For information about tax:

Contact your local tax office or any HM Revenue and Customs Enquiry Centre

Orderline: 0845 9000 404

www.hmrc.gov.uk

- Booklet IR121 Income tax and pensions

Entitledto

An information service that provides free web-based calculators to help you work out your entitlement to benefits and tax credits:

www.entitledto.co.uk

Financial advisers/ planners (to find one)

IFA Promotion

0800 085 3259 (freephone)

www.unbiased.co.uk

Provides a list of 8 independent financial advisers in your area.

Institute of Financial Planning

0117 945 2470

www.finanicalplanning.org.uk

For help in planning your finances.

MyLocalAdviser

www.mylocaladviser.co.uk

Online only – no telephone number.

For a mortgage, insurance or investment adviser in your area.

The Personal Finance Society

www.thepfs.org/financialadviser

Provides a list of up to 6 PFS members.

Solicitors

(England and Wales) Law Society

113 Chancery Lane, London, WC2A 1PL

020 7242 1222

www.lawsociety.org.uk

(Scotland) Law Society of Scotland

26 Drumsheugh Gardens, Edinburgh, EH3 7YR

0131 226 7411

www.lawscot.org.uk

(Northern Ireland) Law Society of Northern Ireland

Law Society House, 98 Victoria Street, Belfast, BT1 3JZ

028 90 231614

www.lawsoc-ni.org

Money Advice Agencies

For help sorting out debt problems:

Consumer Credit Counselling Service

Wade House, Merrion Centre, Leeds, LS2 8NG

0800 138 1111

www.cccs.org.uk

National Debtline

0808 808 4000 (freephone)

www.nationaldebtline.co.uk

Community Legal Service (CLS)

Directory Line: 0845 608 1122

www.clsdirect.org.uk

Complaints and compensation

Financial Ombudsman Service (FOS)

Complaints resolution, South Quay Plaza, 183 Marsh Wall, London, E14 9SR

0845 080 1800

www.financial-ombudsman.org.uk

Financial Services Compensation Scheme (FSCS)

For help if the firm goes out of business.

7th Floor, Lloyds Chambers, Portsoken Street, London, E1 8BN

020 7892 7300

www.fscs.org.uk

Tracing lost pensions, savings or investments

For dormant bank or building society accounts get a claim form from any bank or building society, library or CAB or

British Bankers Association

www.bba.org.uk

Building Society Association

www.bsa.org.uk

National Savings & Investments and Premium Bonds

www.nsandi.com/help/tracemysavings.jsp

To trace lost pensions:

The Pension Tracing Service

0845 600 2537

Minicom/textphone – 0845 300 0169

www.thepensionservice.gov.uk

To trace life policies, pensions, unit trust holdings, and share dividends – for a small fee:

Unclaimed Assets Register

6th Floor, Cardinal Place, 80 Victoria Street, London, SW1E 5JL

0870 241 1713

www.uar.co.uk