Equity Release - Frequently Asked Questions

Are you thinking about releasing equity from your property? Do you have some questions or concerns? Below is a list of the most recent questions we come across when discussing equity release with our clients. If after reading you have any further questions or concerns please get in touch and we will be more than happy to answer them.

Can you apply for equity release even if you still have a mortgage?

Whether you opt for a Lifetime Mortgage or a Home Reversion Plan you will need to repay any outstanding loans secured against the property. You do not need to pay these off using your savings, you can use the equity release funds to clear the outstanding balance. Any additional equity release money raised after the mortgage has been cleared can be spent however you wish.

Can you lose your home if you take out equity release?

If you opt for a Lifetime Mortgage your home still belongs 100% to you. The equity release lender will place a charge against your property so that it cannot be sold without them reclaiming their loan. Like a traditional mortgage, the property belongs to you. If you opt for a Home Reversion plan, you sell a portion of your home to a third party provider. What ever share you do not sell still belongs to you and you still have the right to occupy the property until you sell. When the property is eventually sold you only receive a share of the sales proceeds subject to how much of the property belongs to you. If you sell 100% of the property to a Home Reversion provider you will no longer own it. You do have the right to remain living in the property but it no longer belongs to you. The Home Reversion provider receives their percentage share of the property once it is sold.

No Negative Equity - Will my family be left with debt to pay if I release equity?

With a Home Reversion Plan, the share of the property that you did not sell to the provider belongs to you. When you are no longer with us and your home is sold, that share of the property is passed onto your family. As there is no interest charged on a Home Reversion Plan there is no debt to be left.

With a Lifetime Mortgage even though interest is charged, as long as you have abided by the lenders terms and conditions, if when your home is sold the proceeds from the sale are not enough to repay the outstanding Lifetime Mortgage balance, the lender will never ask your family to come up with the difference. The lender has to write off this loss. The maximum amount a lender who offers the No Negative Equity Guarantee could ever be entitled to is 100% of the sale price of the property meaning that you cannot leave your family with a debt.

Can I move house if I've already taken out an equity release loan?

Yes, whether you take out a Lifetime Mortgage or Home Reversion Plan you can move house. In both cases, most lenders will allow you transfer the existing plan over to the new property and carry on as you were. Portability is the industry term for this. Alternatively you could sell your home and use your share of the sales proceeds to purchase a new home and set up a new Lifetime Mortgage or Home Reversion Plan, subject to Early Repayment Charges and lenders criteria.

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Is tax payable on equity release money?

Funds received from Home Reversion Plans and Lifetime Mortgages are tax free as they are based on selling or borrowing against your main residence. There is a way to arrange equity release on buy to let properties however this is only available as a Lifetime Mortgage and therefore there is still no tax payable.
The funds raised can be spent on what ever you wish, within reason. Whilst the money raised belongs to you, it would be irresponsible for an adviser to allow someone to release funds from their home actively knowing that the client was vulnerable and could in fact end up making bad decisions. As an example, releasing equity from your home and spending it on gambling or speculative investments would not be advised.

What happens when I pass away or move into long term care with the equity release loan?

When the time does come and you pass away or move into long term care, bear in mind for a couple, this is based on the second applicant. Your estate are given 12 months to sell your property and repay the outstanding equity release plan. Once this is in place, on completion of the sale the solicitor handling the matter will repay the funds owned to the equity release provider and the remaining balance will be distributed to your estate as per the wishes in your Will.
Your estate is responsible for the selling and legal fees when the time comes and the equity release provider may also have a Redemption Fee that needs to be taken into account. The Redemption Fee relates to the administration for closing down your account with them and is stated in the paperwork prior to your plan starting.

Can I pay back equity release early?

If you decide you want to repay your Lifetime Mortgage or Home Reversion Plan early the providers will allow you to do this however this is subject to rules and potential penalty charges.
With a Home Reversion Plan, if you decided you wanted to buy back the percentage of the property you initially sold you can do so, however the purchase price of that share would be based on market value at the time. So if you sold a share of your home many years ago it could be expensive to purchase it back if the property has increased in value.
If you decide to repay your Lifetime Mortgage the lender will either charge a Fixed Early Repayment Charge or a Variable Early Repayment Charge, depending on what was agreed when the loan was set up. If you decide to repay the loan in full during the Early Repayment Charge period you will need to obtain a settlement figure from your lender to see what the costs would be.
With Fixed Early Repayment Charges this is slightly easier as it is typically a set percentage of the current balance. With a Variable Early Repayment Charge, as the name suggests, this figure varies due to a number of factors, however typically it is capped at a certain percentage of the loan balance.

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How do I guarantee my family still inherit if I take out equity release?

Leaving an inheritance is a big priority for most within your generation. Most clients I meet tell me they want to ensure something is left to pass onto their family. And most family members that I meet tell me they would rather their parents / grand parents spent the money on themselves instead of worrying about leaving it to them!
However yes, you can guarantee an inheritance will be left to your family.
The share of your home that you didn't sell via the Home Reversion Plan automatically forms part of your estate to be passed on to you family when then time comes. The sales proceeds left after you have repaid your Lifetime Mortgage also fall into the same category.
With a Lifetime Mortgage there are ways to increase / guarantee further inheritance for your family. The first is paying the interest. By contributing towards the interest charged by the lender you effectively slow down the speed at which the debt "Rolls Up" and therefore increase the amount of equity that can be passed on. The alternative way is to select a lender that offers an Inheritance Guarantee feature with their Lifetime Mortgages. Typically these work in the sense that if you don't borrow the maximum amount you could when applying for the Lifetime Mortgage, the lender will ring fence the remaining share and ensure that this is guaranteed to be passed onto your family.

Do I need to pay interest each month if I release equity?

Home Reversion Plans do not have interest associated with them so in this case no, you do no have to pay the interest. Lifetime Mortgages do accrue interest however. There is no obligation to pay the interest being charged. Typically it is added to the original money that you borrowed and repaid in full when you have either passed away or moved into long term care. If you are a couple, this is based on the second applicant.
One of the recent changes with Lifetime Mortgages though is that there is the ability to pay towards the interest should you wish to. Whilst most don't, if you would like to make contributions in order to stop the debt from increasing this can be done by making payments to the lender throughout the year. Typically as long as you pay more than £50 each time you make a payment this will be acceptable with all lenders. Most of them allow you unlimited payments each year up to 10% of the initial money that you borrowed as well.

Am I responsible for maintaining the property after I've taken out equity release?

Whether you have a Lifetime Mortgage or Home Reversion Plan in place, you are responsible for insuring, and maintaining your home. The providers will expect that the property is kept fully insured and in a good state of repair. The example I use is that the lender will not expect you to replace the carpet in the living room if you spill a little wine on it. But they would expect you to replace the front door if it fell off. The lenders are looking for you to look after the house in the same way you already do. Take pride in your home and ensure that it is looked after just in the same way as you do now!

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