

Retirement Loans (Equity Release Plans)

Retirement should be all about relaxing and enjoying your life as best you can. You finally have more time for yourself, but all too often a reduced income can prevent you enjoying your retirement as much as you would like to.

The good news is that, if you own your own home, there could be a way to alleviate some or all of this problem. You may be eligible to unlock some of the value that's tied up in your home to generate additional income or provide a sum of money to pay for something. Money isn't everything, but that extra cash could make a big difference!

It's called **Equity Release**, because you are literally releasing some of the equitable value from your home. The way it works is as follows:

Imagine your house is a **Bank** full of money. Upstairs is the **Reserve Account**, and downstairs is the **Current Account**. To begin with all the money is locked away upstairs in the Reserve Account. You then ask the **Bank Manager** to move a sizeable portion of it downstairs to the Current Account.

You now take a couple of **lump Sums** from the Current Account to buy a new car, and have the house updated to suit your retirement years. The remaining Balance of the Current Account will now be used to generate a **Regular Retirement Income** for the rest of your life.

The money that you have moved downstairs to your Current Account has been borrowed from upstairs, and so upstairs will insist on two conditions: firstly, that whenever the house is sold you repay the original amount borrowed; and secondly, that the cost of borrowing this money at a set Interest Rate is also paid-up when the house is sold.

Meanwhile, upstairs has lent downstairs a substantial sum of money where no repayments are collected at all until the end of the arrangement, and you have the **Capital** and/or **Retirement Income** that you want.

This is a simple pictorial view of an **Equity Release Plan**; and you will find more specific details in the paragraphs below and in the documents linked to this page.

Lifetime Mortgages (Equity Release Plan)

- You take out a **Mortgage** which is secured against your home.
- You borrow between **25%** and **45%** of the property's current market value, depending on your age. The minimum age is **65**, and the maximum is **90**. The older you are the more you can borrow.
- You receive the whole amount as a **Tax-Free Cash Lump Sum** to spend as you choose. Usually this goes towards some capital expenditure and/or retirement income.
- There are **No Monthly Interest Repayments** to make during your lifetime. Instead, the interest is added to the outstanding loan.
- **The Loan**, including the **Accumulated Interest**, is only repaid when the home is finally sold. The remainder of the sale value belongs to you or to your estate. There is a **No Negative Equity Guarantee** which says you will never owe more than the sale value of your home.

Lifetime Mortgage (Equity Release Plan)

Pros: Lifetime Mortgage

- You can stay in your home as long as you choose, and are always the homeowner.
- There's a no negative equity guarantee so you'll never owe more than your home is worth.
- You receive a tax free cash lump sum to spend as you choose.
- There are no monthly repayments to be made in your lifetime.
- The residual value of your home belongs to you or your estate.
- The equity release loan places a debt on the value of your estate, and so lessens the amount liable for any inheritance tax.

Cons: Lifetime Mortgage

- The unpaid monthly interest will eat into the equitable value of your home. Therefore, either you or your estate will only get back what is left after the loan and all the interest is fully repaid.
- It therefore follows that either you or your estate will have to make the repayment in full when the house is sold.
- You are taking on a mortgage, albeit of a certain type, and are therefore bound to those terms and conditions for as long as you keep it.

Independent Financial Advice

In the past **Equity Release** has acquired a poor reputation.. This is largely because it was either miss-used, or miss-understood.

In reality, Equity Release is a perfectly acceptable arrangement, and a very valuable facility for many **Homeowners** in their **Retirement**.

Used correctly, an Equity Release Plan could be your financial answer to a better Retirement.

We are happy to **Advise** you about the benefits and drawbacks of Equity Release; and only recommend the **Lifetime Mortgage** version of Equity Release Plans. We also only ever recommend Lenders approved by the **Safe Home Income Plan Council** (SHIP), and who are likewise authorised by the **Financial Conduct Authority** (FCA).

Please feel free to ask us for further advice and information if you would like our help..