Adams & Remers

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Equity Release Schemes & Remortgaging

There may be many different reasons for re-mortgaging or entering into an Equity Release Scheme.

Fluctuating interest rates, good deals from lenders, the need to raise additional finance, or unlock the capital in your home - whatever the reason we can assist with the legal aspects of your re-mortgage or Equity Release Scheme.

Equity Release Schemes

Equity release can be a useful way of benefiting from the value of your home, without having to sell and move.

Although equity release schemes are a useful method of providing a lump sum or regular income, it is important to look at whether there are other ways of meeting your financial needs.

There are two main types of equity release scheme:

- Lifetime mortgages
- Home reversion schemes

There are advantages and disadvantages to both types of scheme and you should consult an independent financial adviser for full information and advice before committing yourself.

Adams & Remers as Solicitors are not regulated or authorised to provide advice on the merits or disadvantages of any specific, or individual, equity release scheme and these notes have been prepared solely with the intention of providing an explanation of the meaning of this type of secured debt.

With a lifetime mortgage you take out a loan which is secured on your home. The mortgage can vary and could be:

- A home income plan;
- An interest-only mortgage; or
- A roll-up mortgage (rolled up means that the interest is added to the loan, for example on a yearly basis).

With this type of mortgage, the debt is repaid from the sale proceeds of your home if you sell the property, or from the sale proceeds after you die.

With a home reversion scheme, all or part of your home is sold to a third party, which is usually a "reversion company" or an individual. You then receive a regular income and/or a cash lump sum in return and continue living in your home for as long as you want to.

The difference between the two types of equity release schemes is that with a lifetime mortgage you continue to own your home, whereas with a home reversion all or part of your home will be owned by someone else.

A further, important consideration is that you can pay off a lifetime mortgage at any time, although there may be a charge for doing so. In contrast, you cannot cancel a home reversion scheme.

You can obtain advice on particular equity release schemes from an independent financial adviser who will also be able to provide full information on how each scheme works in practice.

Before considering whether you should commit yourself to either type of scheme you should consider the following points:

- You usually have to be in your mid 50s or older for these types of schemes
- You need to own your own home, or have only a small mortgage outstanding
- There are tax implications to consider. Although the money you could release from your home is currently tax free, any money you receive under a scheme which you then invest which in turn generates income could be taxable depending upon your individual circumstances and the type of investment
- There are also inheritance tax considerations. When you take out a mortgage or sell part or all of your home under an equity release scheme, the value of your estate will be reduced, so that when you die this may reduce any inheritance tax
- State benefits. As some state benefits are income related, a cash lump sum or income from an equity release scheme could reduce your state benefit entitlement

- Charges. Most equity release schemes attract charges which include:
    - an arrangement fee
    - a valuation fee
    - legal costs
    - buildings insurance
    - early repayment charges
    - possible rental charges
- If you have a roll-up mortgage, the outstanding loan with added interest can increase very quickly. You could end up with negative equity (i.e. owing more than the value of your home). This could mean that your Lender could ask you to start paying interest during your lifetime or that your beneficiaries could have to repay the extra above the value of your home after your death. However, most equity release mortgages do now guarantee that the amount outstanding at any time will not be greater than the value of the property.
- Maintenance costs. You will probably still have to bear the cost of keeping your home in good repair.
- You may want to move home. You can often transfer your equity release scheme to a new home if the Lender agrees. However, the Lender may not agree to transferring the scheme to sheltered housing for example. If you move to a lower-value property you will usually have to repay part of a lifetime mortgage or repay part of a home reversion scheme. There could also be early repayment charges.

Remortgaging

We are panel solicitors for the vast majority of Lenders and if you would like to discuss your requirements in detail, or to obtain an idea of the costs involved please call us on 01273 480616 or use our Information/costs estimate request form (available from our website) by filling in a few brief details and we will get straight back to you.

When investing in property it is important to consider the implications this could have for your family, and you may need to consider matters such as tax planning or the need to make, or alter, your will.

For further advice contact our team direct.

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