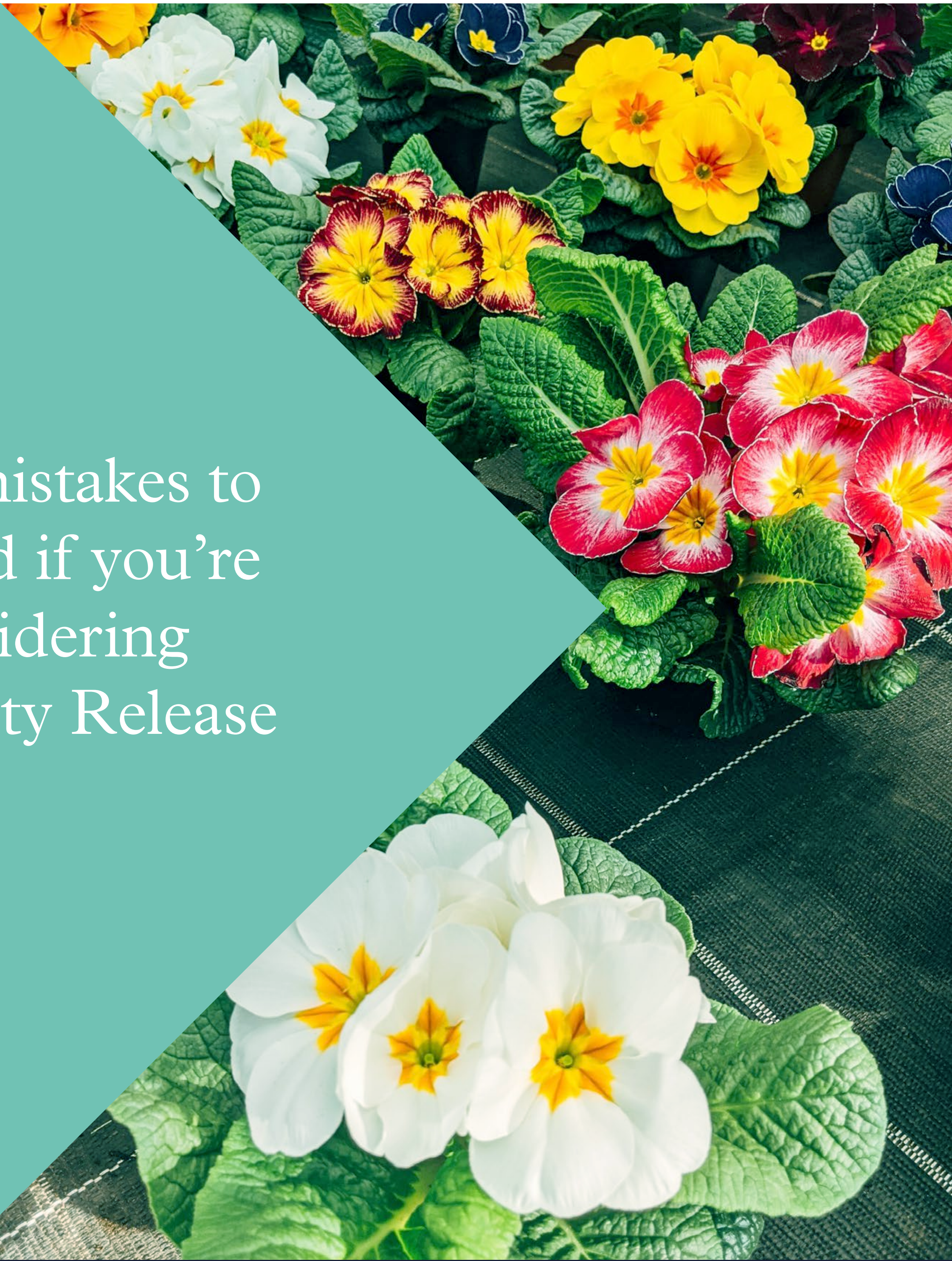
12 mistakes to avoid if you're considering Equity Release



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Introduction

Since 1991, more than 500,000 people have raised **more than £30 billion** against the value of their property through an Equity Release loan.

In very simple terms, Equity Release is a way of drawing down a lump sum, or series of smaller sums, from the value of your property. And, crucially, you don't have to make any regular repayments of interest or of the capital lump sum borrowed. Instead the interest is accrued, and the debt is paid off when the property is sold either when you die or go into long-term care.

Borrowing money in this way can be a good way for you to raise some much-needed capital in certain circumstances. It means you don't have to sell your property and, instead, can stay living in it for as long as you want. It also removes the stress of having to meet loan or interest repayments from your retirement income.

But it's by no means always the best thing to do, and it's certainly not a decision you should take lightly without any research or advice. If you get it wrong, it can prove very costly for you and your family.

To help you understand some of the key issues around Equity Release, we've produced this guide, which highlights twelve common mistakes people make when taking out an Equity Release plan.

1. Doing it too young

Although some Equity Release loan providers have a minimum age of 55, an application when you're that young is not necessarily the best idea. The structure of an Equity Release plan means that, although you don't have to repay anything in your lifetime, the interest on the sum you borrow rolls up annually meaning that the amount to be repaid on your death could be substantial.

Latest Office for National Statistics (ONS) analysis, published in 2018, shows the average male now lives to 84, and female to age 86.

This would mean around 30 years of rolled-up interest accruing on an Equity Release loan taken out at age 55.

For example, a loan of £50,000 would more than double to £104,000 over a 30-year term with an annual interest rate of 2.5%. This amount would need to be repaid on your death.

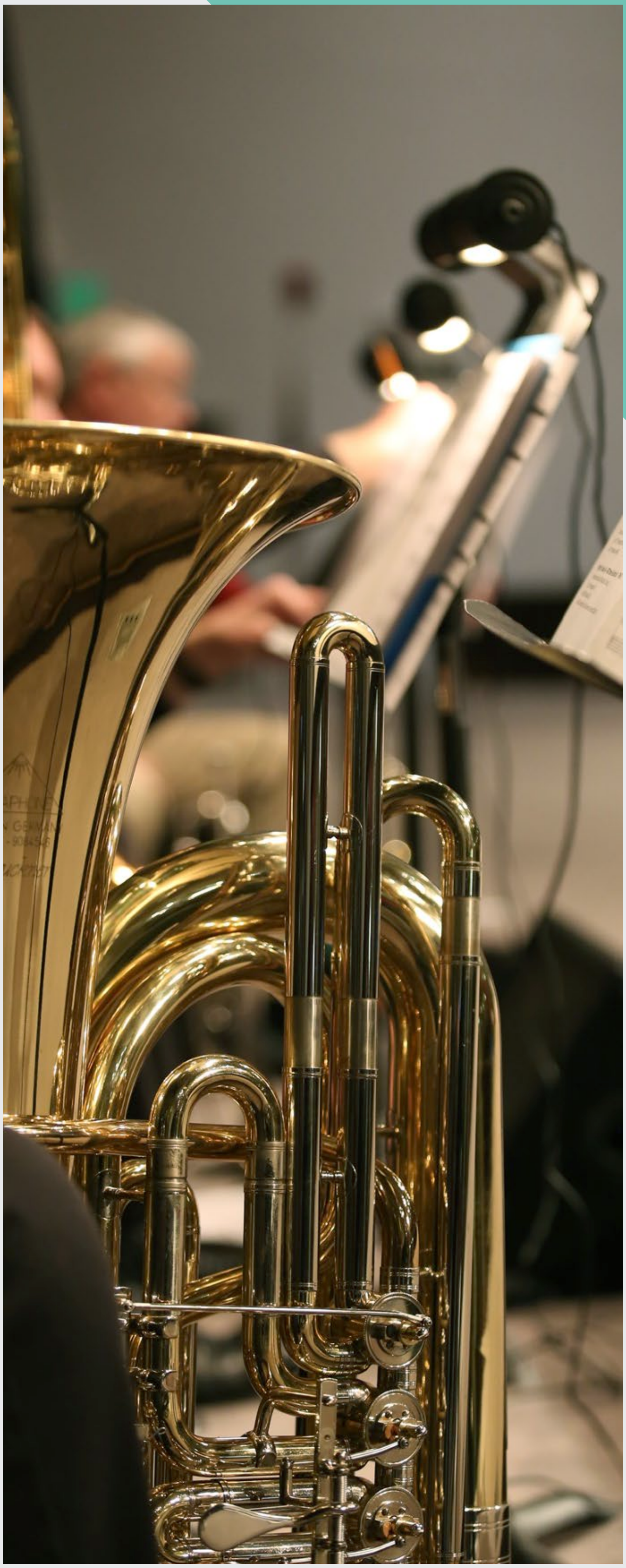
It's well worth seeing if there are other ways of raising any money you need at this stage, especially as it's unlikely you'll have stopped work and so you could potentially raise a secured loan on your property.

2. Not talking to your family

Taking out an Equity Release plan is a key financial decision involving the value of your assets and, consequently, how much your family will inherit when you die. You should ensure that they are aware of what you're doing and are comfortable with it, as it will have an impact on them.

You may also find that members of your family weren't aware of your financial situation and your need for a loan. They could be in a position to provide an alternative source of money for you – very likely at lower interest rates than any Equity Release provider could offer.

We obviously appreciate that conversations about money with family members can be difficult. However, this is something that really does need to be done before you enter into any agreement for an Equity Release loan.



3. Using the wrong solicitor

As with any big financial transaction legal advice on Equity Release is essential. It's therefore always advisable to try to use a solicitor with expertise in that financial field.

If you're thinking out taking out an Equity Release plan, you should try to find an experienced solicitor who is familiar with this type of arrangement. This ensures you're getting the best possible legal guidance.

As well as ensuring that things proceed smoothly, and all the legal details are correct, they'll be able to advise on some of the pitfalls they may have experienced with previous applications.

Your financial adviser or Equity Release provider should be able to recommend a suitable solicitor to act for you.

4. Borrowing too much

If you're considering an Equity Release loan, you should always carefully consider the amount you want to borrow.

As there is no requirement to repay either the loan or interest on a regular basis, there may be the temptation to borrow more than you actually need. However, the amount you borrow, plus interest, will need to be repaid at some stage and it's likely to be your family who will need to do this. So, you should bear this in mind when deciding how much you borrow.

Most providers will allow you to borrow additional sums once you have taken out the initial loan. So, it's usually advisable to only borrow the minimum amount you need, with the option for further lending available as required.

5. Not considering other sources of raising finance

Aside from Equity Release, there may well be other ways you can raise financial capital if you need it.

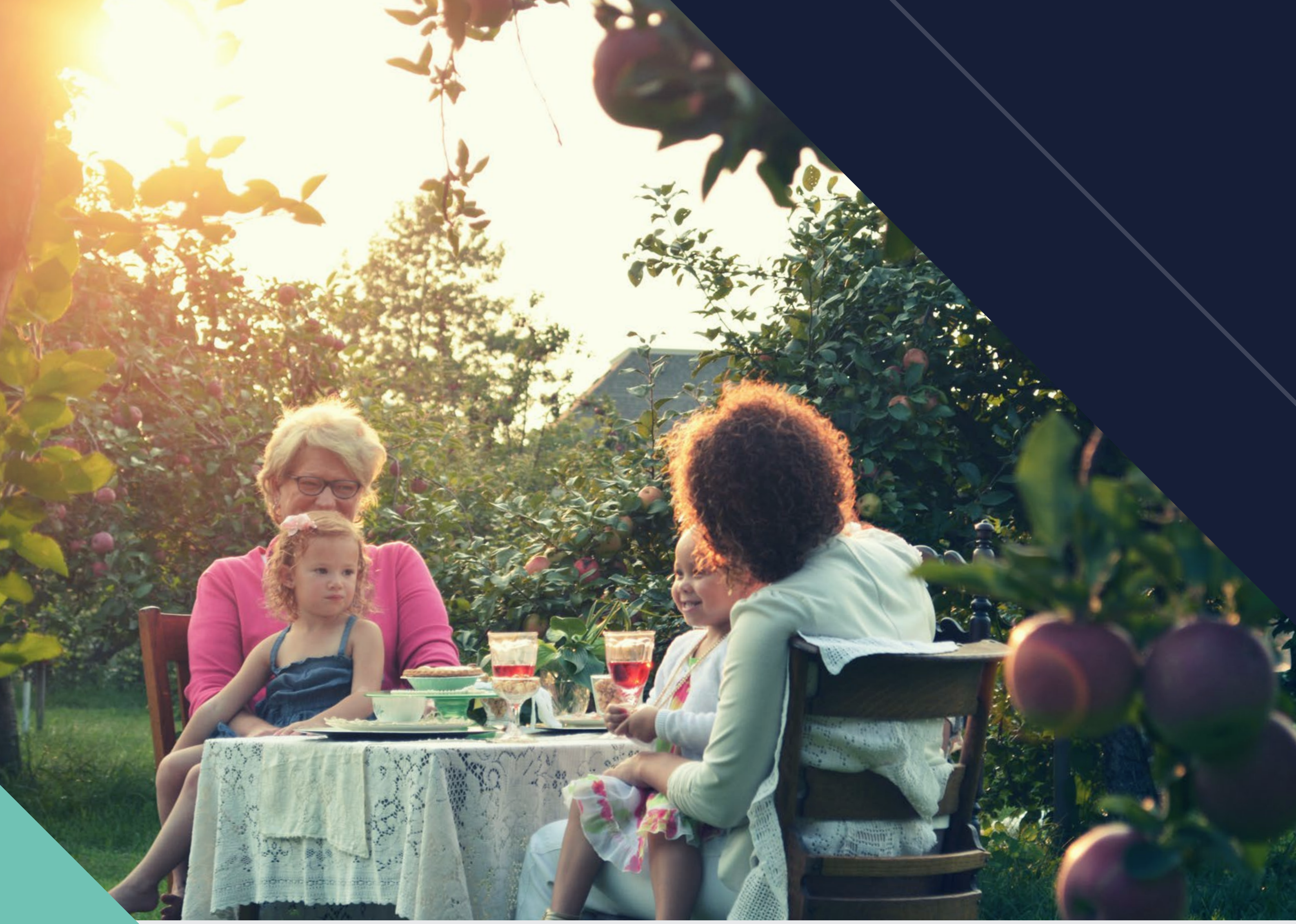
We've already covered the possibility of a family member being prepared to provide you with a lump sum, but there are several other options that may be appropriate to your circumstances. These include:

- A secured loan on your property
- Taking a lump sum from your pension fund
- A bank loan
- A Local Authority grant if the money is specifically for home improvements.

Also, if you're thinking that you might want to downsize at some point in the future and move to a smaller property that will be easier to manage with reduced overheads, you might want to consider bringing this forward. This could help to release some capital from the value of your current property.

For example, if your current property is worth £500,000 and you have no outstanding mortgage, you could free up a substantial amount of capital by downsizing to a property worth £300,000 – even once the expense of moving home is taken into account.

Your adviser will be able to talk you through the options and the pros and cons of each so you're able to make an informed decision.



6. Not getting the right interest rate

Equity Release is a very competitive market, so you should ensure that you shop around for the best interest rate deal available.

Most Equity Release interest rates are fixed for the term of the loan, so finding the best rate up-front is important and could save you a lot of money. Your financial adviser will help you with this.

You will occasionally see Equity Release providers offering special deals such as a free property valuation or a lump sum cashback on your loan, so it's worth seeing if this kind of deal is available when you're considering making an application.

7. Using the wrong provider

The Equity Release Council (ERC) are the industry body for the Equity Release sector, representing providers, advisers, and solicitors.

Previously known as SHIP (Safe Home Income Plans), they have been working for nearly 30 years to drive up standards within the industry. They have an approved list of lenders who meet the stringent criteria they lay down for the sector, and you should always ensure that any lender you select is on the ERC approved list of providers.

One of the criteria they insist on for all lenders on their approved list is that they offer a 'negative equity guarantee'. This means that you'll never end up owing more than the value of your house – regardless of what happens to house prices in the future.

As well as ERC designation, you should also consider the other loan conditions applied by lenders, such as a fixed early repayment charge if you want to consider paying off some or all of your Equity Release, and whether or not you're able to transfer your loan to a different property if you do decide to downsize.

Your adviser will help you choose a provider that's right for you, based on your circumstances and future plans.

8. Not doing it for the right reasons

Along with considering other sources of finance aside from Equity Release, it's good to ask yourself why you're taking out an Equity Release plan in the first place.

Unless you're planning to repay the loan and interest at some stage in the future, you'll be reducing the value of your estate that your heirs will inherit on your death. As the Equity Release loan will be secured on your home, it means that they will have to sell this immediately to repay the outstanding amount, regardless of the property value.

It's also worth bearing in mind that, at some time in the future, you might want to consider Equity Release for very serious reasons. For example, you may get to a stage where you're unable to look after yourself properly, so need a domiciliary care package to go on living in your own home with support.

Equity Release may be a good source of funding for this but may not be an option if you've already taken out a loan for other purposes.

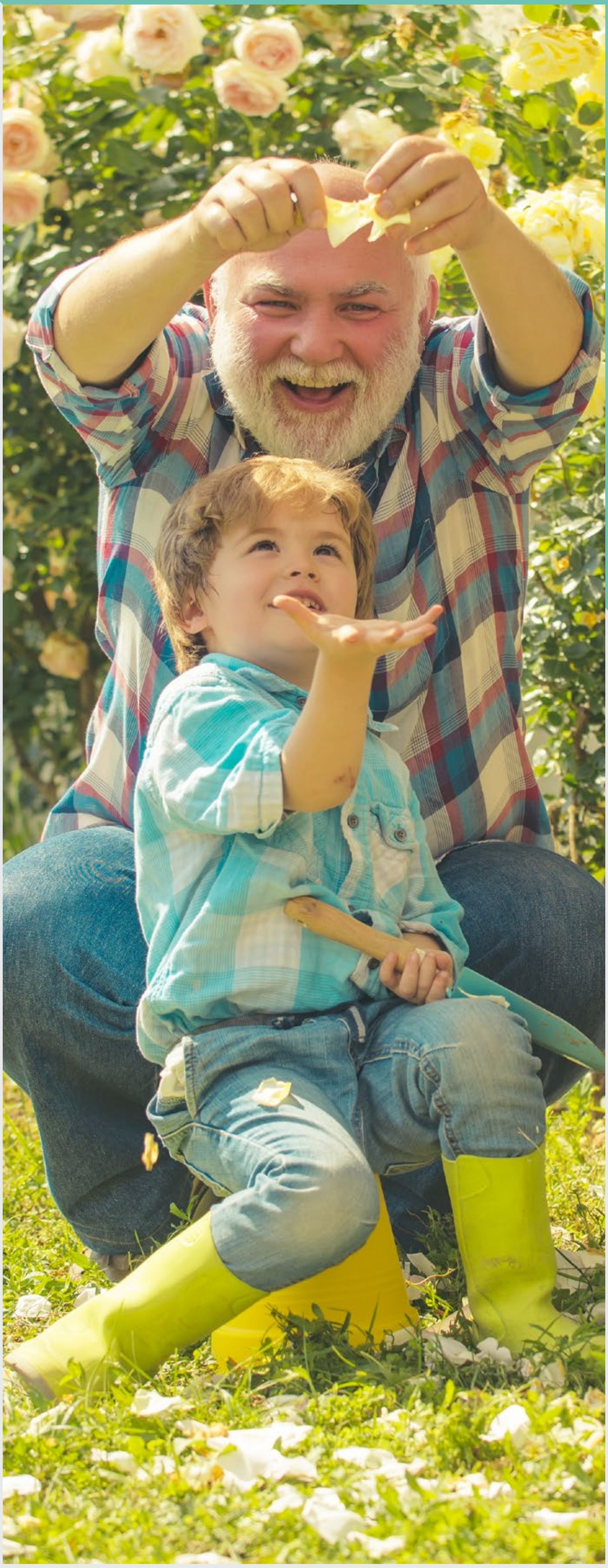
9. Not taking into account moving house or downsizing

For many people in retirement, downsizing can make a lot of sense. The move to a smaller property makes it easier to maintain, and potentially reduces of the cost of items like heating and Council Tax. It can also give you the opportunity to move somewhere quieter, and possibly to be closer to your family.

As we've already seen, selling your existing property may well give you the opportunity to pay off some or all of your Equity Release loan, so it's important to choose a provider that will let you do this without imposing a high early repayment charge.

Alternatively, if you don't think you'll be in a position to pay off your loan when you downsize, you should make sure that your loan can be transferred from one property to another.

Again, not every provider allows this, so it's worth making sure you select the right provider initially to give you maximum flexibility further down the line if it's required.



10. Rushing the decision

Taking out an Equity Release plan is an important financial decision and far too important to be done on an impulse. Be aware that there are still unscrupulous cold callers – in person, on the phone or online – who will try and sell people unsuitable products with none of the positive features we've outlined in this guide.

You should therefore take your time when making a decision. Take advice, do your own research, and speak to connected parties. In particular, you should ensure that your family are aware of what you want to do.

11. Not paying interest when you can

As we've covered, although the terms of Equity Release mean you don't have to make monthly repayments, you'll still incur interest annually on the amount you borrow.

The table below shows the impact of a 2.5% interest rate on a loan of £50,000 over different terms. As you can see, the impact of compounding – effectively interest charged on accrued interest – means that a relatively small initial loan can quickly grow and become a very real financial handicap.

Term (years)	Accured loan outstanding
0	£50,000
10	£64,004
15	£72,414
20	£81,930

Source - thecalculatorsite.com

Whilst most lenders will make a charge for early repayment, these tend to only apply in the first five years of the loan. So, if you're in a position to pay off some or all of your loan after this, it may make sense to do so. Your financial adviser will be able to help you with this decision.

12. Not getting advice

As you've probably realised from reading through this guide, independent financial advice is essential when it comes to Equity Release.

From initial discussions to establish if it's a suitable option for you to consider, to choosing the right lender, through to completing the application process and receiving the lump sum, having a financial adviser to guide and support you is extremely important. They'll ensure everything runs smoothly and that you don't make any costly mistakes that could well be irrevocable.

Speak to a financial adviser

We hope you've found this guide useful, and that it's given you an insight into how Equity Release works, and some of the key mistakes made by people who take out such a plan.

Equity Release can be an effective way of using the value of one of your biggest assets – your property – to release a capital lump sum. But it's not something to be done lightly without a good deal of thought and analysis, and it's essential that you speak to a financial adviser.

Business & Personal Investment Ltd.

Founded in 1999, we have over 20 years' experience in personal, professional and independent advice to individuals and businesses. We are also members of the Equity Release Council.

We offer clients a comprehensive service based on a thorough and detailed understanding of each client's financial hopes, needs, aspirations and objectives, following which all possible options are researched and reviewed and a course of action duly proposed.

If you want to find out more about Equity Release and start to talk through your options and how we can help you, please email **info@bpinvestment.com** or give us a call on **01628 566234**.

Please note: Equity Release will reduce the value of your estate and can affect your eligibility for means-tested benefits.