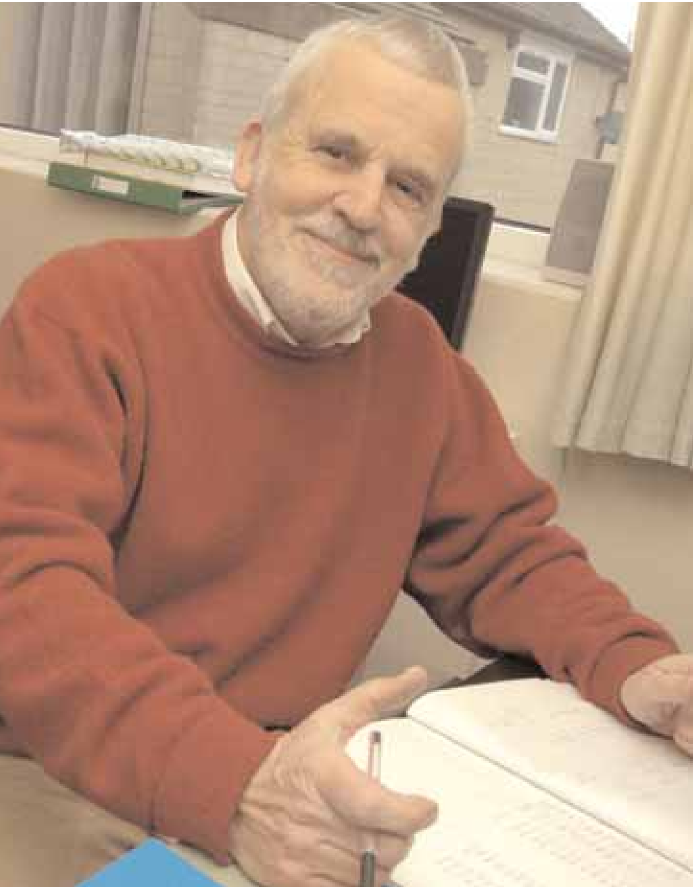


Unlocking yo

Equity release schemes can free up cash from your
but at what cost to you? We investigate these and

If you're retired or nearing that age and finding it hard to cope, you may be considering an equity release scheme, which allows you to free up cash from your home without moving. If so, be careful. These schemes involve borrowing against your home or selling part of it and can restrict your future choices. Consider other options as well, such as downsizing, before deciding to take one out.

With that in mind, we asked two independent financial advisers (IFAs) to help two Which? members consider their options.

Below we explain how equity release schemes work, while the 'Checklist' on page 21 summarises what you should consider if you've decided to take one out.

Q What are equity release schemes and how do they work?

A There are two types and both are regulated by the Financial Services Authority (see 'Contacts', left). A lifetime mortgage involves taking out a mortgage on your home, while with a home reversion scheme, you sell all or part of it.

Q What are lifetime mortgages and how do they work?

A You borrow a percentage of your property's value – usually between 20 per cent and 50 per cent. Typical interest rates are around 6 per cent and are often fixed for the mortgage term. In most cases, you have to be at least 60 to take one out.

Some lifetime mortgages allow you to make interest payments each month, but with most, nothing is paid back until you die or move into long-term care and your property is sold. As interest is 'rolled up', your debt can increase quickly – in ten years it can almost double. However, you should weigh this against how much you think your property may increase in value over this period.

Some lenders offer drawdown products, which let you borrow a smaller initial sum and then 'draw down' the remainder as you need it, although be aware that the interest rate may be different when you do. This gives you more flexibility and you pay interest only on the money you borrow (see 'Reducing equity-release debt', below).

Q What are home reversion schemes and how do they work?

A These schemes allow you to sell all or part of your home to a reversion company in return for a monthly income or cash lump sum. You keep the right to live in the property until you die or move into long-term care and remain responsible for

SAVINGS BEAT EQUITY RELEASE

Martin Taylor *64, semi-retired chauffeur*

Martin plans to stop work at 65 and is considering an equity release scheme. His house in Derbyshire is valued at about £120,000. His current gross income is around £10,100 a year. However, he has savings and investments of £38,500, which could increase his income to £11,800 at 65, including pensions. He estimates his outgoings at £6,400.

If he needs extra cash for anything, he could spend some of the capital invested, although this would reduce the income it generates. Alternatively, he could use some of it to buy an annuity to get a guaranteed income for life. £20,000 could buy him extra income of £1,270 a year, some of which would be tax-free.

Both IFAs felt he currently has no need to release equity as his income at 65 will cover him. Martin himself is also worried about the cost of a scheme. However, downsizing is unlikely ever to be a good option for Martin as his house is at the cheaper end of the market and he does not rule out an equity release scheme in the future.

'I will use a scheme only when I have used up my other resources,' he says.

Contacts

Age Concern
0800 009966
www.ageconcern.org.uk

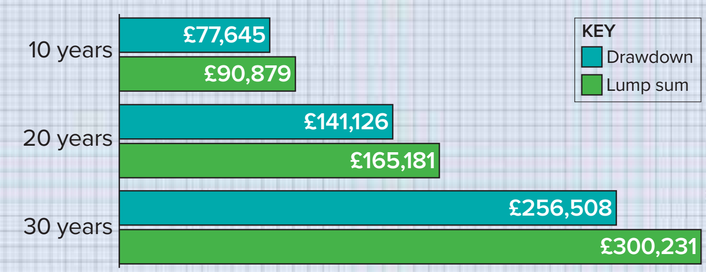
Financial Services Authority (FSA)
0845 606 1234
www.fsa.gov.uk

Safe Home Income Plans (Ship)
0870 241 6060
www.ship-ltd.org

Saga
0800 015 6256
(State reference number: 50669)
www.saga.co.uk

REDUCING EQUITY-RELEASE DEBT

This shows what you'll owe after ten, 20 and 30 years if you borrow a lump sum of £50,000 through a lifetime mortgage compared with using a drawdown version to borrow an initial £25,000 followed by £5,000 in years two, four, six, eight and ten (£50,000). Both are at a fixed interest rate of 5.99 per cent



PHOTOGRAPHY PAUL FRANCIS, STEPHEN SANDON

ur home's value

home to boost your income, options such as downsizing

its upkeep. You receive less than the market value for the share you sell – typically between 40 and 60 per cent, depending on your age and gender. Most schemes are available from age 65 and there are also drawdown versions.

When your home is sold, the reversion company takes its share of the sale price at that time. For example, on a £200,000 home, you might release £40,000 by selling a 50 per cent share of it (40 per cent of £100,000). If your home is sold in 20 years' time for £440,000 (assuming annual house price inflation of 4 per cent), the company gets half and you get half.

Q What are the risks of equity release schemes?

A These schemes can be an expensive way to generate income. They can also restrict your future options. For example, many schemes are portable, which means you can move house with them, but if you want to move to a cheaper home you may have to repay some of the money and there may be restrictions on what type of property you can move to, such as sheltered accommodation. The equity left after you've paid off your debt may not even be enough to buy you another home.

With a lifetime mortgage there is a chance your debt will grow to more than your property is worth, but most lenders now offer a no-negative-equity guarantee.

Early repayment charges apply to most lifetime mortgages so it can be expensive to repay it early, although with some schemes, the charges are applicable only during the first five or ten years. Also, taking out an equity release scheme can reduce your entitlement to state benefits such as council tax benefit and pension credit.

Q What are the alternatives to equity release schemes?

A Downsizing can be a better option, as you can release equity without having to pay any interest. However, you will have to pay moving costs. For example, if you sell your property for £200,000 and buy another house for £150,000, you will have to pay £1,500 in stamp duty, around £3,000 in estate agents' fees (at 1.5 per cent of the sale price) and at least £3,000 for other costs such as legal and survey fees and removals – a total of about £7,500.

If you have savings and investments, consider spending from here first before dipping into equity. Also make sure you are claiming all the benefits you are entitled to by visiting www.direct.gov.uk or contacting Age Concern (see 'Contacts', p20). If you need money for home repairs, you may get help from schemes run through your local authority or by not-for-profit organisations. Contact your local authority for details.

Downsizing can be a better option as you can release equity without paying interest

DOWNSIZING IS AN ATTRACTIVE OPTION

Wendy Gibson *58*
Wendy has not been able to work since November 2005, due to ill health. Her annual income is £4,400 in state benefits but her outgoings are around £5,800 a year. She was thinking about an equity release scheme to supplement her pensions at age 60. Her south London house is worth around £210,000. After advice from our IFAs, she has found that her gross income at age 60 will be around £15,000, including all pensions. She has also seen properties in the Isle of Wight and Kent for between £145,000 and £150,000 that she'd be happy to move to. This would release about £50,000 after moving costs. She now thinks downsizing would be a better option than an equity release scheme at that early stage of her retirement.

Checklist

If you have decided on an equity release scheme, the following tips may help

- **Advice** Get independent financial and legal advice before taking out a scheme. Find an adviser with an equity release qualification by visiting www.unbiased.co.uk or calling 0800 085 3250. Saga also offers an equity release advice service (see 'Contacts', p20).
- **Drawdown** If you're taking out a lifetime mortgage, consider a drawdown product with low minimum drawdown amounts.
- **Check charges** Look for lifetime mortgages with no or low early repayment charges.
- **Go portable** Make sure the product you choose is portable, allowing you to move.
- **Work out debt** Ask your IFA to work out what your lifetime mortgage debt would be after ten, 20 and 30 years (see 'Reducing equity-release debt', p20), considering potential house price changes and how this may affect your equity.
- **The future** Think about your future plans. Do you intend to stay put or might you move?
- **Benefits** Make sure your IFA explains how an equity release scheme will affect your entitlement to state benefits.
- **Ship shape** Make sure your lender or reversion company is a Safe Home Income Plans (Ship) member (see 'Contacts', p20). In the case of lifetime mortgages, all participating companies guarantee no negative equity and from 1 August will not accept business from advisers who do not hold a specific lifetime mortgage qualification.

FIND OUT MORE

For a free copy of our equity release factsheet call 01992 822800 (quote code EQUIT7 or download a copy at www.which.co.uk/equityrelease.