RELEASING CAPITAL FROM YOUR HOME

Introduction

Due to the continuing rise in house prices, many individuals and couples in retirement are finding themselves living within a very valuable asset. The equity of the property can provide a very useful and secure source of capital that can be used for a range of purposes. These can include additional income, money for holidays or home improvements, money to protect your estate from the potential costs of nursing home fees and also alleviate inheritance tax to name but a few.

There are a number of schemes that enable you to tap into the value of your home without having to sell it and move out. Over the past thirty-five years, thousands of retired homeowners have found that these plans provide a safe and successful method of releasing regular income or a cash lump sum to improve the quality of their life in retirement or make provisions for the future.

The alternative may not be very attractive. Too many elderly homeowners find themselves in the unenviable position of having to watch every penny they spend from day to day, while most of their money remains locked up in their single biggest asset - their home. There is also the potential cost of nursing home fees in the future that could dramatically deplete or remove completely the value of your hard earned estate that has took a life time to accumulate.

The purpose of this guide is not to recommend any particular plans to you. Its aim is solely to help you to distinguish between the various plans available and to enable you to make an informed and sensible choice. Once this decision has been made and you if you decide such a plan may be of use, you can then arrange a confidential fact finding appointment with one of our advisers without charge.

There are a number of pitfalls awaiting the unsuspecting in the equity release market. For instance, whilst the worst offending schemes based on loans and equity investment have been outlawed, some plans involving standard variable interest rates are still being sold. Although they may look attractive, these schemes can soon become a financial burden in unfavourable market conditions.

Safe Home Income Plans (SHIP)

Safe Home Income Plans (SHIP) is a company supported by the leading providers of home income and equity release plans. It was launched in 1991 and is dedicated entirely to the protection of plan holders and promotion of safe home income and equity release plans.

All participating companies are pledged to observe the SHIP Code of Practice set out below Members display the SHIP logo in their brochures and other printed material as a guarantee to their customers. The SHIP Code binds these companies to provide a fair easy-to-understand and full presentation of their plans. Any scheme endorsed with the SHIP logo will be properly explained and safe.

As a further safeguard, your own solicitor, who will oversee the transaction on your behalf, must sign a certificate to acknowledge that the essential features and implications of your chosen SHIP Plan have been brought to your attention. No SHIP protection plan can proceed without a signed certificate.

No SHIP member will ever attempt to sell you such plans because they do not meet the SHIP Code of Practice. So, if in doubt, there is one sure-fire solution: look for the SHIP logo. Braunton IFA Ltd will only recommend members of the SHIP scheme.

SAFE HOME INCOME PLANS

Ship Safety Check

Anyone using their home to raise money should ask themselves three fundamental questions:

- Do I have the right to live in my property for life?
- Do I have freedom to move to suitable alternative property without financial penalties?
- Will I receive either a cash sum or regular income payments?

If you buy a home income plan we recommend through a member of SHIP, you are guaranteed that the answer to each of these questions is YES. And this guarantee applies whether you are raising a loan with your house as security or selling all or part of your property to generate cash or income.

Ship Code Of Practice

- The members of SHIP agree to provide fair, simple and complete presentation of their plans. The benefits, obligations, variables and limitations must be clearly set out in their literature, including all costs which the applicant has to bear in setting up the scheme, the position on moving, the tax situation and the effect of changes in house values.
- The client's legal work will always be performed by the solicitor of his or her choice. In all cases, prior to the completion of the plan the solicitor will be provided with full details of the benefits the client will receive. The solicitor will be required to sign a certificate to the effect that the scheme has been explained to the client.
- The SHIP certificate will clearly state the main cost to the householder's assets and estate e.g. how the loan amount will change or whether part or all of the property is being sold.
- All SHIP plans carry a "no negative equity" guarantee i.e. you will never owe more than the value of your home.

Types of Equity Release

Today, the options available are more numerous than ever and certainly more than we can list in this document. Generally you can choose between a 'Life Time Mortgage' option that can provide a lump sum and/or regular income to suite your needs. With this scheme interest rolls up throughout the period of the scheme. Alternatively you can sell part of you home in return for a lump sum and/or income and this is known as a 'Home Reversion Scheme. No interest accrues with this type of arrangement as the lender will share in any profits (or losses) made in the house value over the term. **Note that Home reversion schemes are not regulated by the Financial Services Authority.**

At the time of writing there are 18 members of SHIP and as independent advisers our task is to walk you through the process and recommend the schemes most suitable to your individual needs from the increasing number of providers in this area.

Case Studies

Mr and Mrs James in their late 70's were facing increasing financial worries with regard to the shortage of income received from their pension arrangements. Married for over 30 years and with two adult children who were both financially very secure, their income requirements to enable them to enjoy life to the full needed to be significantly increased.

Their home was valued at £150,000 and they did not have a mortgage. To supplement their income they took out a secured income plan, selling a 75 percentage of their property in exchange for an income of £3,383 per annum.

As a result, Mr and Mrs James were able to supplement their pension and received an income that allowed them to live comfortably and enjoy their retirement to the full.

Mr Tipping had, for many years since the unfortunate death of his wife, considered visiting Australia to see his son and grandchildren and also to fulfil his ambition to travel extensively around the world.

Unfortunately, the cost of his stay and travelling was to cost him in the region of £26,000. This amount he did not have available and his existing income would not allow him to finance a loan agreement in any way.

Mr. Tipping was able to fulfil his dream by arranging an Equity Release mortgage plan. This allowed him to free equity from his home to release a cash lump sum of £30,000. This adequately covered the cost of the travelling and also gave him a surplus to supplement his income on his return.

Mr and Mrs Warrilow had a reasonable pension, which allowed them to cover their cost of living, however they had virtually no savings to provide for any significant purchase.

Unfortunately they were faced with the daunting prospect of making costly improvements to their kitchen which had become very dated. They did not wish to move from their home and therefore were considering ways to finance the improvements. They also wished to increase there income to pay for a gardener each week as Mr Warrilow found the mowing hard on his back and Mrs Warrilow thought that some help with the house would be preferable. They were not able to afford the payments of a personal loan for the lump sum let alone pay for some help in the home. Therefore the benefits of an equity release plan where the repayment is not made until their house would be sold at a future date was very attractive.

The cost of the improvements was £7,000 and the value of their property was £150,000. An Equity Release plan with a combination of a lump sum and income allowed the Warrilows to receive £7,000 and a regular monthly income.

As a result the Warrilows were able to undertake the refurbishments to their home and continue with their comfortable lifestyle.

Mr and Mrs Barton have valued their estate at around £450,000 of which £250,000 was accounted for in the value of their property. The Barton's had a reasonable pension that allowed them to cover their cost of living and had good levels of savings for additional costs. However, they have become concerned that their two children would face an Inheritance Tax bill of some £66,000 of their hard earned estate.

They did not want to reduce the value of their estate by making gifts from their savings and the amounts required to make any substantial difference to the tax liability would have left the Barton's with almost no capital other than that in the property. Mr and Mrs Barton decided to take a mortgage option on their property releasing £75,000. The majority of the money was then passed to the children although rather than directly, the money was retained within a trust until both Mr and Mrs Barton died in order that they could maintain full control. The balance was retained by Mr and Mrs Barton and used to fund a policy to protect the outstanding inheritance tax liability.

Mrs Murray' elderly mother had recently died at 84 having spent 3 years in a local nursing home following a stroke. As the cost of this care had been well over £50,000 for the three years (current national average for nursing home fees is around £21,000 per annum), both Mrs Murray and her husband decided to take action to protect their inheritance to their son David.

After calculating the shortfall in their income to fund the cost of long term care whether at home or in a nursing home, Mr Murray needed an additional £8,000 per annum and Mrs Murray £12,000. Rather than taking out a monthly plan, Mr and Mrs Murray decided to opt for a single premium scheme that would put to bed this worry forever with one payment. For Mr Murray (age 72) the cost was £7,300 and for Mrs Murray (age 71) £16,700.

Mr and Mrs Murray decided to take a mortgage option on their property releasing £30,000. £24,000 was used to fund the policies as a one off payment and the balance was used to pay for a well earned cruise safe in the knowledge that their future was assured. There son David was also happy because he knew that his parents future care needs were provided for and they would have the freedom to chose when and where they would be cared for and not be allocated a home by the local authority. As an incidental, by taking out the loan and using the capital to fund the policies, Mr and Mrs Murray's Inheritance tax liability was also reduced by £12,000, again assuring that more of their estate was passed to David.

Important Information

Information is based on Braunton IFA Ltd's interpretation and cannot be held liable for any errors or omissions. Any information is by no means implied as specific recommendations and you are strongly advised to take independent advice before proceeding with an investment or other policy and legal advice before commencing any form of trust. Past performance is no guarantee of future returns. The returns from stock market investments can rise as well as fall particularly in the short term and if you surrender early you may not get back your original investment. The warning 'your home may be repossessed if you do not keep up repayments on your mortgage' is applied to these loans although in most cases repayment is not required until you either die or otherwise permanently vacate the premises.

Contact Details

Address: 11 Tuly Street, Barnstaple, Devon, EX31 1DH

Tel: 01271 372500

Fax: 01271 372100

Email: info@brauntonifa.ltd.uk