

**IFA Fact-Files
"Equity Release"**



PO Box 87, Crockenhill
Swanley, Kent BR8 9AP

Tel: 01322 669059

Fax: 01322 666825

Email: martin@maaltld.co.uk

Web: www.maaltld.co.uk

Living off the value of your property, and still living in it might seem like the best of both worlds, and to many older people these days, it is. Many people are considering Equity Release from their property to either:

- Increase their Income
- Reduce their Inheritance Tax (IHT) liability

Equity Release key points

The key point of most of these arrangements are:

- Usually need to be in excess of age 60
- Minimum release usually £10,000 to £25,000
- Further advances may be available later
- Value of release governed by age
- Interest accrues on top of loan, although maybe option to pay interest
- Loan plus interest repaid on death or sale of property
- Fixed or Variable rate schemes available
- Can move property as long as acceptable to Equity Release lender
- Penalties for early repayment
- Guarantee that property not re-possessed if loan value exceeds property value

**Although not linked to an investment product, these arrangements can often be combined with another plan, particularly to meet the dual objectives of reducing IHT liabilities and increasing their income.*

What are the costs?

There are inevitably costs involved in establishing an Equity Release scheme. They will vary from provider to provider but you should expect to pay:

- Setting up Fees of £300+
- Valuation fee dependent on value of property
- Solicitors costs (approx. £300-£500)

Maximum that can be borrowed

Approximate Age Band	Maximum Loan to Value
60 to 65	20 – 23%
66 to 70	24 – 28%
71 to 75	29 – 33%
76 to 80	34 – 40%
81 to 85	41 – 45%
86 to 89	46 – 50%
Over 89	50%

The maximum will vary from provider to provider. We have included a typical lender's table of the maximum release by age, as follows:

Value of your property

Property prices have been increasing significantly sometimes as much as 25% in a year. This sort of growth cannot be sustained, but it might be possible to achieve a more consistent growth in the value of house prices. Alternatively, your property could lose value.

Risk

When entering an Equity Release arrangement, you must accept that it is not necessarily the best of both worlds. It can be either essential or very valuable to you, to release equity from your property, but it comes with risks:

There is a potential that with longevity and compounding interest rates, you could lose all of the value of your equity in your property by the time you come to sell the house, or you die.

Consequently, Equity Release is not something you should enter into lightly.

Compound Interest Rates

A reasonable Fixed Interest Rate currently available would be 7.3%. For your interest, we have included a small table showing the compound interest based on the interest rate quoted above, on an Equity Release value of £50,000. This shows that over a long period of time, there is a significant risk of losing all of the "Equity" in your property. This risk is increased if your property value does not increase by a significant level each year, or if the property suddenly reduces in value, due to a slide in UK house prices. This is the real risk involved in such an arrangement.

Number of years of Equity Release	Value of £50,000 with 7.3% Compound Interest
5 years	£66,278
10 years	£94,269
15 years	£134,081
20 years	£190,706
25 years	£271,246

Is Equity Release appropriate?

There is undoubtedly a need for Equity Release to meet the two objectives noted at the start of this Fact-file. It is however something that needs to be considered carefully, before deciding to proceed.

What to do next

If Equity Release is something that you would like to explore, please contact the office to make an appointment to discuss your particular situation. It may be that this is the right thing for you, but it might be that a different solution may present itself, which may be more beneficial to you in the long run.

If you have any questions or need an independent review of your investment arrangements, please contact Martin Andrews to discuss your situation further. Martin Andrews & Associates Ltd is an Independent Financial Adviser authorised and regulated by the Financial Services Authority.

Information given in this document should not be taken as advice as it is intended for guidance only. If you wish to have an assessment of your own situation, you should contact the office for advice.