COURTNEY HAVERS LLP

Lifetime mortgage – Fact sheet for clients.

What is it?

Lifetime mortgages are one of the two main types of equity release. The other is a home reversion plan. **Courtney Havers LLP are only able to advise on lifetime mortgages.**

A lifetime mortgage is a long term loan where you borrow money secured against the value of your home to give you a lump sum and / or a regular income. The loan is repaid to the lender when the property is sold, on death, or when you move into long term care. If there is any money left after the loan is paid off, it will go to your beneficiaries. You retain ownership of your home.

There are two main types of Lifetime Mortgages. These are:

- Interest only mortgages
- Interest roll up mortgages

With both of the above types of Lifetime Mortgages, some lenders allow you to take a regular income rather than a lump sum. This can mean that you accrue less interest as interest is only charged on the amount you actually receive – i.e. interest is only charged on the monthly payments you receive.

Some lenders also offer a flexible lifetime mortgage, where you can take a smaller lump sum at the beginning, then draw down further borrowings as and when required.

Interest only mortgages

With an interest only mortgage, you borrow a lump sum secured against the value of your home. You pay interest on the loan each month, and the lump sum you originally borrowed is repaid when your home is eventually sold. You need to be able to afford the monthly interest payments out of your pension or other income.

The interest rate may be fixed or variable. But if it is variable, and your pension or other source of income is fixed, you will find it more difficult to meet your repayments if interest rates rise.

Interest roll up mortgages

No interest payments are made to the lender. Interest is rolled up and paid on redemption, death or if you move into long term care.

Advantages

You benefit from any future house price inflation.

Disadvantages

With a rolled-up interest loan, the amount you owe continues to grow because you do not make any repayments and therefore the interest on the loan is added to your debt on a continual basis. This means that there could be no value left in your home to pass on to your family at the end of the mortgage.

These scheme can be expensive and inflexible if your circumstances change.

These schemes may affect your entitlement to state and local authority benefits, both now and in the future.

Eligibility

This will depend on a number of factors, such as how much your property is worth, your outstanding mortgage and your age.

You will have little or no mortgage outstanding. You will usually need to use some of the amount released to pay off any existing outstanding mortgage.

Costs

In addition to any costs incurred in relation to receiving advice, there will be costs associated in settling up any equity release plans. These will vary but will typically include:

- Completion, arrangement or application fees that cover administration costs
- Valuation fees
- Solicitors' fees

Moving house

It is possible to move house and transfer the loan, although trading down to a lower value property could involve the repayment of part of the loan. You would need to meet the relevant lender's lending criteria at the time of the move and your new property would need to provide adequate security.

Death of self and / or partner

Where the plan is in joint names, the surviving partner can continue to stay in the home. On the death of the surviving partner, the property is sold and the mortgage will be repaid. Any balance will be distributed in accordance with any will(s) made.

Where the plan is in one name, the amount owed to the lender is usually paid back from the proceeds of the sale of the property. Any money left over would be paid to the beneficiaries. The estate usually has up to 12 months to repay the lifetime mortgage but the interest continues to accrue daily until it is repaid.

Long term care

Where the plan is in joint names, if both of you had to move into long term care, the plan would end and your home would be sold and the mortgage repaid. Any balance will be distributed in accordance with any will(s) made. The plan will continue if only one of you has to move into a care home.

Negative equity

Most lifetime mortgages offer a 'no negative guarantee'. This means that you or your beneficiaries will never have to repay more than the value of your home – even if the debt becomes greater than the value of your home. It also means that the lender, not you, carries the risk of negative equity. Furthermore, you have the right to continue living in your home until the death of you and your spouse, or until you both enter into long term care.

Repairs and maintenance

You are responsible for keeping your home in good repair. If you don't maintain your home, the lender can arrange to do the necessary repairs and you will have to pay for them, or the cost could be added to the amount you owe.

Absence from the property

Lenders don't usually imposes conditions in relation to properties being left vacant for long periods of time.

Inheritance

Taking out an equity release scheme will reduce the value of your estate and any amount your beneficiaries will inherit on your death, particularly if property prices fall.

Further advances

Where you might need to raise further funds in the future, some plans allow you to apply for a further advance or cash facility but there are circumstances in which this may be withdrawn or restricted in certain circumstances as detailed within the relevant Key Features Document.

In order to take out a further advance, there would need to be enough equity in your home.

Tax

Equity released from a property will not normally raise a capital gains tax or income tax liability. However, income arising from an investment purchased by money raised by an equity release scheme may create a tax liability. Furthermore, if the money raised is placed in a bank or building society account you may be subject to income tax on any interest paid.

Risk considerations

There are a number of risk considerations that need to be taken into account. It is important that you are aware of these.

- If you take out an equity release plan too early in life, you may not have enough value left in your home to move to a property later on.
- You may experience problems if you decide to move. Although the majority of lenders allow you to move from one property to another, moving may be difficult if the new property is more expensive than the equity remaining in your current home.
- Some properties are not accepted by lender i.e. sheltered housing, as these are typically hard to sell.
- Using equity in your home will affect the amount you are able to leave as an inheritance.
- Any means tested state benefits (both current and future) may be affected by any equity released.

- Taking out an equity release scheme will affect you in the short and long term. You need to be sure you are happy with the scheme now and that it will suit your objectives now and in the future as far as you are able to judge.
- Most schemes do not allow you to pay off the loan early. If you decide to repay the loan early, the majority of lenders apply an early repayment charge. Charges for valuation, administration, advice and legal fees may apply.
- Your home may be repossessed if you fail to abide by the terms of the contract as detailed within the mortgage offer.
- Typically any outstanding mortgage(s) will need to be fully repaid before entering into an equity release contract.
- If any relevant information provided has not been disclosed accurately and honestly, this could result in any offer made, becoming invalid.
- Failure to disclose any requested or relevant information may adversely affect any offer made.
- It is important that you fully read and understand the terms and conditions of the mortgage prior to going ahead.
- Specialist lenders products tend to be less competitive than those generally available.
- Equity release can be more expensive when compared to an ordinary residential mortgage.

Additional risk considerations relevant to where regular payments are being made

- The payments shown in the Key Facts Illustration provided could be considerably different, and higher, if interest rates change
- In the event that your income falls, you will still have to make your mortgage payments
- Your home may be repossessed if you do not keep up payments on your mortgage

Equity release council

Courtney Havers LLP is a member of The Equity Release Council. The Equity Release Council is the industry body representing the lenders, providers, qualified financial advisers, lawyers, intermediaries and surveyors who work within the equity release sector. It was launched in May 2012 and is dedicated entirely to the protection of plan holders.

Members display the Equity Release Council logo in their brochures and other printed material as a guarantee to their customers.

All participating companies are pledged to observe the Equity Release Council's Statement of Principles, which puts in place a number of safeguards and guarantees for consumers.

In addition to these Statements of Principles, members voluntarily adopt further safeguards, including:

Product standards

All of the following standards must be met in order for a company to state that their product meets these standards:

- Interest rates for lifetime mortgages must be fixed or, if they are variable, must be 'capped', for the life of the loan
- Providing the property remains your main residence and you adhere to the terms and conditions of your contract, you must have the right to remain in your property for life or until you need to move into long-term care

- You have the right to move to another property subject to the new property being acceptable to your lender / product provider as continuing security for your equity release loan
- The product must have a ‘no negative equity guarantee’

Independent legal advice

You may choose your own solicitor to carry out the legal work in connection with your plan. Before the plan is completed, your solicitor will be provided with full details of the plan, including the rights and obligations of both you and your lender / product provider under the contract, should you choose to go ahead.

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 Equity Release Plan have been brought to your attention. No Equity Release plan can proceed without a signed certificate.

Information about and explanation of your equity release plan

You will be provided with a fair and simple presentation and explanation of your equity release plan.

You will be given information about:

- All the costs that you will have to bear in setting up the plan
- The tax implications
- What will happen if you wish to move to another property, and
- How changes in house values may affect your plan