DOMUS

FINANCIAL SERVICES

Frequently Asked Questions

Making the decision whether or not to release equity from your home is a difficult one. It involves many variables and requires that you have all the information you need so you can be comfortable that you are making the right choice.

Our role as financial advisers is to help our clients answer all their questions and ensure they have all the information they need before making any commitments. We have produced this comprehensive Equity Release FAQ to help answer some of the more common questions and concerns, however if you have any further questions then please don't hesitate to contact us.

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What is a No Negative Equity Guarantee?

In the unlikely event that the value of your house decreases significantly, it is possible that it might not be worth enough to cover the amount which you owe. The "no negative equity guarantee" means that if this turns out to be the case, the remainder of the loan would be written off. We only provide advice on those products which feature a no negative equity guarantee and meet the Equity Release Council's guidelines.

How long until I can access my money?

Timescales will vary from provider to provider. However, it usually takes 8-12 weeks from the day your application is received by the provider to the day your money is received by your solicitor.

How old do I need to be?

To qualify for a Lifetime Mortgage you need to be aged 55 and over. If you are taking out the plan with your partner, then the age of the youngest borrower must be at least 55. For a Home Reversion Plan you must be a minimum of 60 years old.
ll the property in the open market when your plan comes to an end.

Is Equity Release right for me?

Equity release plans are not right for everyone and it is important that you fully consider your options and receive financial advice before making a decision. It is also important that, if you do decide to use an equity release product, you choose one that meets your needs.

Remember that taking an equity release plan is generally a long term option. However, there are flexible plans available that may fit your varying needs and some will allow you to repay in the future without any penalties.

What types of Equity Release are there?

There are two main types of equity release: Lifetime Mortgages and Home Reversion plans.

Lifetime Mortgage

A Lifetime Mortgage is a type of mortgage where you can choose to extract your funds in a single lump sum or in smaller amounts over time. You can also elect to retain some of the value of your property as an inheritance for your family, meaning that you can benefit from releasing equity while ensuring you have something to pass on to your children.

You retain full ownership of your home and interest on the loan can be fixed or rolled up. Both you and your partner are free to live in your home for the rest of your lives and the property is only sold once the last applicant dies or moves into permanent long term care. With some plans you can make monthly interest repayments in part, or in full. That way, you can maintain the debt to the initial amount of the loan before interest. If you choose to make interest repayments, you still have the option to move to a roll up arrangement at a later date if you wish.

Home Reversion Plan

A Home Reversion Plan also allows you to access all or part of the value of your property while retaining the right to remain in it, rent free.

With Home Reversion, the provider will purchase all or a part percentage of your house. You know precisely what portion of your property you have parted with and, equally, what has been ring-fenced for later use, possibly to leave in a Will. The percentage you retain in your property will always remain the same regardless of the change in property values, unless you decide to take further cash releases. At the end of the plan your property is sold and the sale proceeds are shared according to the remaining proportions of ownership.

Again, depending on your age and medical conditions, you may be able to access more funds. You will be provided with a tax free cash lump sum (or regular payments) and a lifetime lease, guaranteeing you the right to stay in your property rent-free for the rest of your life. There is no day to day interference and no restrictions in treating the house exactly as before; as a private home to live in freely.

What guidelines do you follow to protect me?

At Domus Financial Services, we pride ourselves on putting our client's interests first. In order to ensure our clients are protected, and they are receiving unbiased advice they can trust, we follow the guidelines set out by the Equity Release Council. These are as follows

1 - For lifetime mortgages, interest rates must be fixed or, if they are variable, there must be a “cap” (upper limit) which is fixed for the life of the loan.

2 - You must have the right to remain in your property for life or until you need to move into long-term care, provided the property remains your main residence and you abide by the terms and conditions of your contract.

3 - You have the right to move to another property subject to the new property being acceptable to your product provider as continuing security for your equity release loan.

4 - The product must have a “no negative equity guarantee”. This means that when your property is sold, and agents’ and solicitors’ fees have been paid, even if the amount left is not enough to repay the outstanding loan to your provider, neither you nor your estate will be liable to pay any more.

How will compound interest affect me?

As the interest payments are added to the borrowing, you will be paying compound interest, (interest on interest), which will increase the speed that your borrowing builds up. The main offset to this is that if house prices increase then your equity will also be building up, however house prices may decrease, which is a risk for you to consider. There is also a feature in some equity release mortgages that allow periodic interest payments to be made which can help offset the impact of this compound interest. Please see our Equity Release Booklet for more detailed information on how the change of house prices can impact on your borrowing.

If I take out an Equity Release Scheme, am I at risk of losing my home?

No. The amount of money you borrow against the value of your home, plus any rolled-up interest, can never go above the value of the property - when it is sold at the end of your plan - due to the No Negative Equity Guarantee safeguard upheld by Equity Release Council members. You will continue benefitting from the rises in property value in the years to come.

With a lifetime mortgage, you will continue owning your home and with a home reversion plan, you would have to convey the deeds to the scheme provider - totally or up to an agreed percentage. Based on that, the scheme provider will own this part of your property. However, in both cases you will own a lifetime lease guaranteeing you the right to stay in your home until death or when you move into long-term care.

The main risk for borrowers who have traditional mortgages is that they find themselves unable to make their regular repayments – and if they get too far into debt the lender may decide to go to court to get an order to repossess the property. The lender will then sell the property to recoup as much as possible of the money which it had lent to the borrower. With most equity release schemes however, you the borrower are not required to make any regular repayments to the lender, so the question of not being able to afford to repay the loan simply does not apply.

It is rare for a lender to take possession under an equity release plan but as with every contract, failing to comply with the terms and conditions of an equity release plan, could mean that the house might be repossessed. For example, failing to keep the property in a good state of repair, and renting it out / subletting a part of it are reasons why a contract could be considered breached on behalf of a borrower.

We should emphasise that even if a contract is breached on the behalf of a customer, a lender would first give the borrower warning about what the borrower needed to put right.

It is true that instances of repossessions under equity release schemes have happened in previous decades when the product was unregulated. Nowadays, equity release is one of the most regulated financial products in the UK and both the regulator and the industry itself work hard to ensure, as much as possible, that there are no negative customer experiences. The industry aims to protect the good work that has taken place since then with regards to standards and its long-term reputation.

What is the standard process for taking out an Equity Release Plan?

Once you have decided that you want to know more about equity release, you can arrange a **FREE initial consultation** with one of our experienced advisers. Meetings can be arranged at our offices, at your home or over the phone and internet depending on your requirements and location.

Your adviser will review your personal circumstances to check if an Equity Release plan is the most suitable option for you, taking into account other sources of funding that you may have, including any state benefit entitlements. Once Equity Release has been confirmed as the most suitable course of action, your adviser will provide you with a Key Facts Illustration which summarises all the important details of your proposed plan in a clear and easy to understand format.

You may wish to involve your family and discuss your plans and this information. As members of the Equity Release Council we fully support and encourage the involvement of family members throughout the process if you so wish.

If you are happy with the proposed product then you will need to complete an application form which your adviser will help you with.You will also need to appoint a solicitor to carry out the necessary legal work to arrange an Equity Release plan. It is also advisable that the solicitor you choose is familiar with equity release plans.

The plan provider will need to have a valuation of your home and will instruct a RICS-qualified surveyor to visit your property in order to assess its value.

Once the survey is complete and the amount you can borrow has been confirmed, you and your solicitor will receive an Offer Letter. Your solicitor will usually prepare a written report explaining the obligations and benefits of going ahead with the plan. They will also make sure that you clearly understand the nature of the legal contract and confirm that you are not being pressurised to sign something that you don’t understand or don’t want to sign up to.

You and your solicitor will then sign the acceptance form and Equity Release Council Solicitor’s Certificate which confirms that all key points have been discussed.

Your provider will then carry out some legal checks in relation to the title of your property. Once this is completed, the money will be released to your solicitor who will arrange for it to be transferred to you.

How is Equity Release Regulated?

Advice on Equity Release is regulated by the Financial Conduct Authority (FCA).

In addition to this, we are members of the Equity Release Council – who are the trade body, representing over 350 members of equity release professionals. They work to raise high standards and ensure that customers receive the best possible advice and service. "Members have voluntarily signed up to additional rules of principle, as testament to their commitment to this ethos." - Equity Release Council.

If I take out an equity release plan, will I be able to move house?

Yes. Equity release plans which comply with The Equity Release Council's guidelines give you the right to move to a “suitable alternative property”. This means a property which your provider would accept if it were setting up a plan for a new customer.

There are some properties which providers would not be able to accept – and this is usually because there would be restrictions on their ability to sell the property in the open market when your plan comes to an end.

So, for instance, homes which are built in retirement complexes are not generally acceptable, because the provider would not be able to sell them in the open market.

There may be other restrictions on the types of property that will be acceptable to providers – such as the type of construction. See question on “Why are some types of property not acceptable to equity release providers?”

Is there a minimum value for properties to be eligible for Equity Release?

Yes. Providers will generally not accept properties which are valued at less than £70,000.

Why are there Equity Release 'horror stories'?

Equity Release has been around for a long time and like many old financial products was introduced as an unregulated product. As a result, people received unsuitable advice from un-reputable lenders and advisers, on products which were risky and poor value for money.

Fortunately this has now changed, and with ever tightening regulation, and trade bodies such as the Equity Release Council the standards of lenders, advisers and products have improved beyond recognition. Now as one of the most regulated financial products, Equity Release offers a valuable financial solution for the right individuals. As a result of the past, there are many people still sceptical about Equity Release, which in some respects has been fuelled by the media.

We find that in the majority of cases that where an individual or couple has had a negative experience with Equity Release, it has been a result of not seeking professional financial advice beforehand and therefore not having the right information to make an informed decision or understand the impact of Equity Release on their family and other financial arrangements.

Our advisers will help guide you through the Equity Release process and ascertain whether it offers the most suitable solution to your needs and objectives as well as identify any suitable alternatives to Equity Release.

What happens if I live with someone else?

If you are married, in a civil partnership or living with someone else as a partner and you are both eligible by age, you can take out a joint equity release plan.

Your spouse or partner will then have the right to live in the property for as long as they wish, should you die or move into long term care.

If you have a friend or tenant living in your home the provider will want to make sure that they have no rights to continue to live there when you die or move out, as that is the point at which the loan made to you will have to be repaid, through the selling of the property.

What is the cost of Equity Release?

Under a Lifetime Mortgage, the rate of interest will either be fixed, or it will be variable, in which case there will be a "cap" (upper limit) to the interest rate charged.

If the rate is fixed, it will be fixed each time you withdraw funds from your plan. Over time, therefore, you could have several amounts of money which you have released at different times, and each would be subject to a different fixed rate of interest, which would then be added to the total amount which you have borrowed.

You will not have to pay back any of this money until your plan comes to an end and your property is sold or you choose to repay the loan. At the time you take out the plan you may however be asked to pay a number of other fees to cover the costs of setting up the plan. They will include fees payable to:

1 - The Provider which is financing your plan. These may be described as "application" or "administration" fees.

2 - Adviser, who will carry out detailed research into the options and recommend the most suitable plan from the range available, followed with a written report containing recommendations and a personalised Key Facts Illustration (KFI). Should you wish to proceed, your adviser will arrange all of the required paperwork with the provider and handle things through to eventual completion and release of the funds. **At Domus Financial Services our fees for providing advice are £400 and are extremely competitive when compared to other financial advisers.**

3 - Your Solicitor, for giving you independent advice to help you understand how the plan will work, and for carrying out the necessary conveyancing (legal) work.

4. The surveyor (valuer), who will inspect your property in order to give the provider an independent estimate of its value at the time you take out the plan.

Fees from providers, solicitors, and valuers will vary and others may structure their plans so that they offer cash-backs in order to balance the cost for you. Your adviser will research the market thoroughly to ensure that you find an option which suits you.

Typically, however, you can expect to pay approximately £2,000 – 3,000 in total depending on the amount released and the plan being arranged. Some of these fees may be added to the loan to help reduce your up front costs. Your adviser will be able

What happens to my partner if I die?

If your plan is in joint names, then your partner will be able to continue living in the property under the same terms. If it is in your name only, then unless the mortgage can be repaid in full the property will have to be sold and your partner will have to find somewhere else to live.

It is normally a requirement that where the borrower clearly has a spouse or partner, the plan is written in joint names from the outset to make sure that both individuals have the right to remain in the property until they die or move out.

If you marry after you have taken out a plan, or if someone comes to live with you as your partner, then you must tell your provider. It may not be possible to add your new spouse or partner to your plan, in which case they will not necessarily have the right to continue living in the property if you die or move into long term care.

What are the alternatives to Equity Release?

Before taking out an equity release plan, you should check what the alternatives are.. For instance, you may have other investments, savings or assets to draw on, or you may wish to continue some form of paid work. You could downsize to a smaller property or one of lower value – perhaps by moving to a different part of the UK where house prices are cheaper.

Downsizing is likely to give you maximum value from your home, but you may decide that you do not want to leave your home or move away from family and friends and you should consider the cost of moving.

You may also want to think about renting a room in your home, or taking a loan from family and/or friends.

Ultimately you will need to weigh up all the alternatives and, along with help and advice from your financial adviser, decide whether any of these alternatives meet your requirements.