EQUITY RELEASE EXPLAINED

PREPARED BY

ANNUITY DIRECT

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Annuity Direct is a trading name of
Directly Financial Limited
Independent Financial Advisers
Regulated and authorised by the FSA

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This fact sheet has been prepared to give you a simple overview of the main points concerning Equity Release. If you have any questions, or you would like us to complete a financial review to see how Equity Release could benefit you, please contact us. Our contact numbers can be found at the back of this fact sheet.

WHAT IS EQUITY RELEASE?

Retirement should be the time when you enjoy the benefits and rewards of all your years of hard work. Unfortunately, few people have a large enough pension or enough income from savings or investments to be able to do all the things they would ideally like.

Today we live and remain fitter for longer. As a result your retirement could last for 25 years or more.

Equity Release schemes are a way, effectively, of raising cash by selling part of your home, but without losing the right to live in the property.

DO YOU REQUIRE ADDITIONAL INCOME OR CAPITAL?

50% of elderly couples have savings of less than £4000.
(source: Age Concern)

70% of pensioner households depend on State benefits for at least 50% of their income.
(source: Age Concern)

Over 70,000 pensioners are forced to sell their homes each year to pay for long term care. *(Source: Laing & Buisson, 2002)*

Overview

- A loan is secured on the value of your property.
- You retain the right to live in your property for the duration of your life.
- With schemes covered by Safe Home Income Plans, you cannot lose the home nor can the accumulated debt become larger than the value of the property.
- With most schemes, the advance must be repaid on death or sale of the property.

There are 4 main types of Equity Release Plans.

Home Income Plans

- Provide a guaranteed income from the property; the released capital is used to purchase an annuity.
- Interest rates can be fixed by you, so that the loan is protected against fluctuations in interest rates.
- Part of the annuity income will be used to repay the interest payments; the rest is additional income for you to spend.
- Any future appreciation in the value of the property belongs to you and may form part of your estate.

Roll-up loans

- Instead of making interest payments, these are rolled up, thus increasing the amount of debt.
- The loan plus interest is only repaid on death or on sale.
- Interest rates are usually fixed.
- The value of property available as an inheritance will depend on the value of your house appreciation exceeding interest costs during your lifetime. It is uncertain how much you will end up paying back.
- The amount you can borrow usually depends on age. A 60 year old may be able to borrow 20% of the house value, whereas an 80 year old might obtain as much as 40%.

Home Reversion schemes

- Part or all of the home is sold to a reversion company. For example, if you sold 40% of the property, you would retain 60%.
- In return, a lump sum or annuity is paid to you.
- You would retain a lifetime tenancy.
- As there is no loan, this type of scheme can produce high levels of income, although some schemes may require you to pay a small rent.
- There is a chance for you to gain from any future appreciation in the property value.
- You are unlikely to get the full market value at the time it is arranged. The valuation will depend on your age and how long the reversion company's money may be tied up in the property.

Shared Appreciation Mortgage

- A lump sum is released to you, which can be used for investment or to produce an income.
- There are no interest payments. Instead the lender simply takes a proportion of the future growth in the property value.
- The lender would usually require a multiple of the amount borrowed. For example, if 10% was borrowed, the lender may take 30% of any growth.
- If prices stagnate or fall, you could effectively benefit from an interest free loan.

WHAT IS SHIP?

Safe Home Income Plans (SHIP) is a company dedicated to the promotion of safe home income plans.

It was launched in 1991 as a result of a collective initiative by the main 'specialist' providers of these schemes in Great Britain. Participating companies are pledged to observe the SHIP Code of Practice and to display the SHIP logo on their brochures and other printed material. All companies in the Equity Release market are members of SHIP.

The SHIP Code binds these companies to provide a fair, simple and complete presentation of their Plans and any scheme endorsed with SHIP logo will be properly explained and entirely safe.

With schemes covered by Safe Home Income Plans, you cannot lose the home nor can the accumulated debt become larger than the value of the property.

As a further safeguard, your own solicitor, who will oversee the transaction on your behalf, must sign a certificate before proceeding, to acknowledge that the essential features and implications to your chosen SHIP Plan have been brought to your attention.

USE OF EQUITY RELEASE SCHEMES IN LONG TERM CARE PLANNING.

Equity Release schemes are frequently used in Long Term Care planning to help fund care home fees: the lump sum is typically used to fund annuities to meet these fees.

The capital or additional income released by these schemes could enable you to remain in your own home, whilst receiving care, where you otherwise have inadequate resources to do this.

CONTACTING ANNUITY DIRECT

Please feel free to contact Annuity Direct should you have any Equity Release queries or if you would further information and we will be happy to help. We can be contacted by any of the following:

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Please feel free to visit our website to view details of all the services that Annuity Direct provides. Our address is www.annuitydirect.co.uk