THE Openwork PARTNERSHIP

Making more of your home with a Lifetime Mortgage

This guide is to help you understand Lifetime Mortgages, how they work and the different options available.

It also provides an overview of what you should consider to help you decide if a Lifetime Mortgage is the right solution for you.

This guide focuses on Lifetime Mortgages but there may be other products and solutions open to you. So, it's important that you have a discussion with your Financial Adviser before making any decision.

Your adviser will establish if a Lifetime Mortgage is right for you and take you through the decision making and application process. You will receive a personalised illustration and your adviser will be there for you to answer any questions throughout the process.

Lifetime Mortgages

What is a Lifetime Mortgage?
A Lifetime Mortgage is an equity release product. Put simply, equity is the value of your home minus any debts secured against it, such as a mortgage or other loans. An equity release product allows you to convert some of your home's value into cash without having to sell and move out. For some people this can be a great way to raise money.

Lifetime Mortgages are so called as they are designed to last for the whole of your lifetime. They allow you to borrow money against the value of your home, while still owning it. This loan can be taken as a lump sum or paid in stages as you need. As with any mortgage, interest is charged. However, the loan and the interest do not have to be paid during the term of the loan. The interest is 'rolled up' and added to the loan, and the total amount is repaid from the sale of the property when you (or you and your partner if a joint mortgage) pass away or move into long term care.

The other type of equity release product available is a Home Reversion Plan. This is where you sell all or part of your home in exchange for a lump sum or a monthly income. You are no longer the sole owner of your home and you typically get far less than the true market value for the part of the home you sell. If your adviser thinks a Home Reversion Plan is the most suitable product for you – and there will be occasions when this is the case - they will refer you to a specialist company to provide the appropriate advice.

If you are considering releasing value from your home, there are many options available and it is important to get sound financial advice before making this decision. Your adviser will guide you through the options and the process and make sure you find a solution that works for you.

How does a Lifetime Mortgage work?
Your home is a very important part of your life. Increasingly, our homes have a financial as well as practical and emotional role to play in the lives we live. Over the past 30 years UK house prices have generally risen significantly, resulting in a lot of value in many of our homes. Low interest rates on savings and economic volatility mean that homes are increasingly becoming our primary and most significant financial asset.

As a result, more and more people are turning to Lifetime Mortgages to release some of the value that has built up in their home over the years.

With a Lifetime Mortgage you retain ownership of your home. You secure a loan on your property to release value and the loan is in place for your lifetime – repaid when you (or you and your partner if a joint mortgage) pass away or move into long term care. It's important to be aware that as the amount you borrow is secured against your home, it will reduce the amount that you can leave to your beneficiaries.

You need to be over 55 years old to be able to apply. The amount you can borrow will depend on several factors such as your age and the value of your home. You can choose to borrow a single lump sum, a smaller initial lump sum with further payments - which is known as 'drawdown' - or take a monthly cash amount.

There are different types of repayment options for Lifetime Mortgages. Usually, the interest charged on this Lifetime Mortgage is added to the total amount of the loan and is only repaid once your home is sold. This means you do not have to make any loan repayments or interest payments throughout the term of the mortgage.

There are also options available where you can pay back some or all the interest, or the loan, without selling your property.

What are the different types of Lifetime Mortgage?
There are currently a number of different types available. Your Financial Adviser can give you the support to help decide which one would be most suitable for you. This is a significant decision so it's important to be clear on your options.

Lump Sum
This allows you to release a lump sum with no requirement to make any payments until the loan is repaid. Interest is added to the loan, with the total debt and the accrued interest payable when the property is sold.

Drawdown
This enables you to borrow a smaller initial sum and then agree an amount that you can borrow in the future as needed. The interest rate is based on the interest rate at the time of each drawdown and interest is only charged on the amount you have taken, so the overall cost may be lower.

Monthly Income
A set amount is paid to you each month and can be used to top up your income in retirement. You may be required to take a small initial lump sum and then supplement this with a monthly amount. As with drawdown, you will only pay interest on the amount that you have taken so the overall cost may be lower.

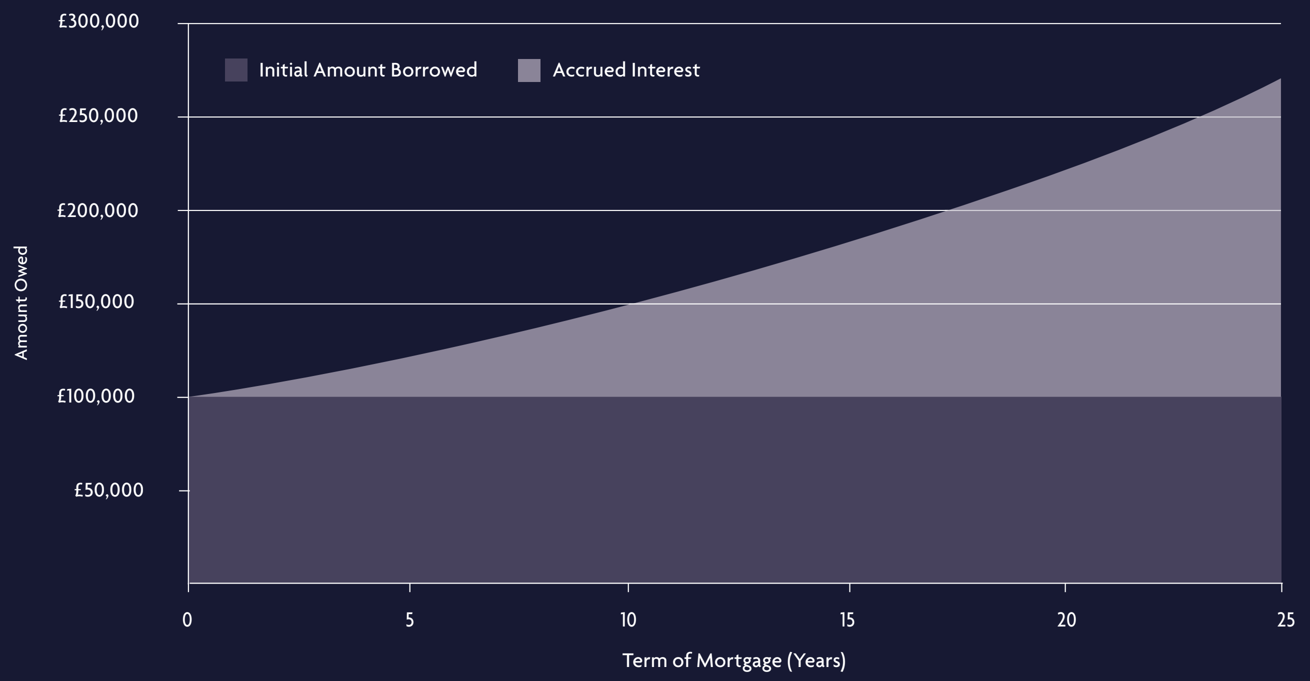
Interest Serviced
Here, you can make monthly payments of all or some of the interest and so reduce the effect of accrued interest on the total amount borrowed.

How is interest charged on a Lifetime Mortgage?
Most Lifetime Mortgages have a fixed rate of interest, but variable rate plans are available. Variable rate plans can be less predictable, as the interest you are charged can rise and fall. Some Lifetime Mortgages offer the option to pay off all or some of the interest regularly. However, in most cases, interest you are charged will roll up over time. This is known as accrued or compound interest.

Accrued interest can grow quickly. This is because the accrued interest is added to the loan, so the amount owed increases. Interest is then charged on the increased loan amount. This is unlike a conventional capital repayment mortgage where interest is charged on an amount that decreases over time.

The graph below shows an example of how accrued interest increases the total amount that you will owe. This example is based on a £100,000 Lifetime Mortgage with an interest rate of 4% fixed for the term. This is intended as illustrative information only and you should refer to your personal Lifetime Mortgage illustration for accurate information.

Impact of accrued interest on the total amount owed



Despite the combination of the loan and the interest, with Lifetime Mortgage products that are approved by the Equity Release Council – a trade body representing the Equity Release sector – there is a 'no negative equity guarantee', which means you will never have to repay more than the value of your home.

How is a Lifetime Mortgage repaid?
A Lifetime Mortgage is usually repaid from the sale of your property when you (or you and your partner if a joint mortgage) pass away or move into long term care. The amount that will need to be repaid will be based on the amount you have borrowed plus the interest owed. Once your home is sold, if there is any money left over it will be paid to you or your estate. However, your beneficiaries can alternatively choose to pay off the mortgage without selling the property.

How much can I release?
The amount you can release depends on several factors including your age, health, property value and whether you are applying individually or in joint names.

Your Financial Adviser can provide you with a personalised illustration showing the amount that you can release.

What can I use the loan for?
There are many reasons why you might want to take out a Lifetime Mortgage. You may want to make home improvements, make the most of your retirement by travelling more, or use it to supplement your pension to top up your retirement income.

You can use the loan to pay off an existing mortgage, loans or other debts. However, you need to think carefully about this as the accrued interest charged over the term of the mortgage could make this an expensive option.

Whatever you need the money for, a Lifetime Mortgage could help you achieve your financial goals.

Options available
There are different types of Lifetime Mortgages available and many of them offer a range of options. Some of the most popular options you may wish to consider are:

Inheritance guarantee
You can choose to protect a percentage of the property value to leave to your beneficiaries. This will reduce the total amount that you can borrow.

Partial repayment
You can pay off part of the loan without incurring a redemption charge.

Medical enhanced terms
In some instances, you may be able to borrow more where you have a medical condition that may reduce your life expectancy.

Drawdown facility
This will enable you to drawdown future funds as required.

Porting
If you move to a new house, you can transfer the mortgage to your new property (subject to terms and conditions).

Downsizing protection
If you need to move to a smaller property and repay some or all of the loan you will not be charged an early redemption charge (subject to terms and conditions).

What are the costs?

When you take out a Lifetime Mortgage there are some costs that you will need to pay:

Fee	What it covers
Valuation fee	To cover the cost of an independent valuation of your property.
Completion fee	To cover the lender's costs of setting up the loan.
Legal fees	Your solicitor's fee for providing independent legal advice.
Financial Adviser fee	Your adviser may charge you a fee for their advice.
Other fees	You may be charged a fee if you make changes to your plan such as borrowing more, moving home or changing the names of the borrowers.
Early redemption charge	An early redemption charge may apply if you pay off the loan early.

What are the benefits and risks?

Your adviser will help you to weigh up the benefits and risks as well as the other options available to you. Below is a list of things to think about. This is not a full list of benefits and risks; your adviser will look at your personal circumstances and advise you on risks specifically affecting you.

Benefits

Cash when you need it	You could release money from your home tax-free to use to improve your lifestyle or top up your income in retirement.
You can stay in your home	You don't need to leave your home and you will still own it.
No monthly payments needed	There is no need to make payments during the term of the loan.
No negative equity guarantee	With Equity Release Council approved products, you or your beneficiaries won't be left with an outstanding mortgage after your home has been sold even if the amount owed exceeds the value of the home.
Repay existing Interest Only Mortgage	In some instances, it may be beneficial to repay an existing Interest Only Mortgage, or other debts.
It may reduce your inheritance tax liability	As a Lifetime Mortgage creates a debt for your estate, it may reduce any inheritance tax liability.

Risks

How you spend or use the money may affect your tax and benefits	A Lifetime Mortgage may affect your eligibility for means-tested benefits or entitlement to housing grants. It will also form part of your estate for inheritance tax purposes.
The total amount you owe increases	As interest is charged on both the original loan and the interest that has been added, the amount that you owe will increase over time, reducing the equity left in your home and the value of any inheritance.
Failure to meet the Terms & Conditions	If you fail to meet any of the terms and conditions set by the lender, they will have the right to put things right on your behalf or even sell the property. This will include maintaining the property and keeping it insured.
There are upfront costs that will need to be paid when applying	If you were to pass away or move into long term care within a short period of taking out a Lifetime Mortgage, the upfront costs could exceed any benefit.
There may be cheaper solutions for consolidating existing debts	If you are thinking of repaying existing debts, you should consider all options available, as the interest that may be accrued over the long term with a Lifetime Mortgage, may mean it is not the cheapest solution.
You may have to pay an early redemption charge	Lifetime Mortgages are not designed to be paid off early. Doing so may incur a substantial early repayment charge.
Your life expectancy	A Lifetime Mortgage will last until you (or you and your partner if a joint mortgage) pass away or move into long term care, both of which are unknown. The longer you have the mortgage for, the more you will owe and the total debt could end up equaling or exceeding the property value. With the 'no negative equity guarantee' (see Benefits), you will never have to pay back more than the property value.

How does a Lifetime Mortgage compare to a Residential Mortgage?

A Residential Mortgage is a loan secured on a property where interest payments are paid monthly throughout the term of the mortgage. The original loan is repaid either at the end of the term (Interest Only) or gradually over the term (Capital Repayment). A Lifetime Mortgage works differently.

	Lifetime Mortgage	**Residential Mortgage**
Loan term	The term of the mortgage is not fixed. The term lasts until you (or you and your partner if a joint mortgage) pass away or move into long term care.	The term of the mortgage is set at the start of the agreement.
How interest is charged	In most cases the interest charges are added to the amount owed. The interest accrues and increases over time because interest is charged on interest.	Interest is paid off monthly, so it does not accrue and increase over time
Monthly payments	Monthly payments are not usually required unless you have chosen to make payments.	Monthly payments are made throughout the full term of the mortgage.
Affordability	There is no affordability assessment where interest is being added to the loan.	Your income and expenditure are assessed by the lender to ensure that the monthly payments are affordable.
How the loan is repaid	The loan plus accrued interest is paid when the property is sold when you (or you and your partner if a joint mortgage) pass away or move into long term care.	The loan is repaid by monthly payments over the term of the mortgage, or in a lump sum at the end of the term.

Is a Lifetime Mortgage right for me?

A Lifetime Mortgage is a long-term commitment and will not be suitable for everyone, so it is important that you get financial advice before making this decision.

Suitable for	**Not suitable for**
You must be at least 55 years old	Your home is or will be left unoccupied for more than 6 months
You own your home (or only have a small mortgage remaining that will be paid off with the Lifetime Mortgage amount borrowed)	You are entitled to means-tested benefits and/or grants
You want to borrow a minimum of £10,000	You have access to savings and investments that can be used instead
Your house is worth at least £70,000	You can comfortably afford monthly payments and qualify for a standard residential mortgage
Your house is in the UK	You want to leave your property to your beneficiaries
You have no or minimal savings	
You have insufficient income in retirement	

Do I need to involve my family?
Although the final decision is yours, you are encouraged to discuss your plans with your family and beneficiaries, as a Lifetime Mortgage could have an impact on any potential inheritance. We would also encourage you to invite them to join any meetings with your Financial Adviser so that they can ask questions and join in the decision.

You may find that they are very supportive of your decision or they may have some concerns. Either way we believe that it is better to discuss your decision with them before you go ahead.

Things to consider

Before you apply for a Lifetime Mortgage it is important to consider if you have any other ways to raise the cash needed. Your adviser will be able to help you look at your options but here are a few to consider:

- Do you have money in savings or investments that may be a better option to meet your needs?
- Are you making the most of your pensions?
- Have you considered moving to a smaller property?
- Could you let out some or all of your property?
- Do you qualify for benefits/grants?
- Could your family and friends help?

Important Information

A Lifetime Mortgage is a long-term commitment and it is important that you take financial advice from a qualified Financial Adviser.

A Lifetime Mortgage may suit your current situation, but changes in your circumstances could impact your financial planning arrangements. For example, marriage, divorce, civil partnerships, death of a partner, or if you are planning to have other family members or children occupy the property in the future.

Changes to tax laws could impact on your plans and you should seek separate advice from your tax adviser or HMRC as your Financial Adviser is not authorised to give legal or tax advice.

The greatest unknown variable when considering a Lifetime Mortgage is life expectancy. If you (or you or your partner if a joint mortgage) live for a long time, or it is a long time before you move into long term care, it could mean that the total amount of debt would be equal to, or exceed, the value of the property. You are protected from having to pay back more than the property value with the 'no negative equity guarantee' that comes with all Equity Release Council approved products.

Interest rates could change, meaning that future borrowing may be more expensive. You could stop any future drawdown, but this means that the benefit you have gained so far might be less than the overall cost that you will pay.

Your property could fall in value, limiting your ability to borrow more.

Equity Release Council
Openwork Ltd is a member of the Equity Release Council, a trade body which promotes very high standards of conduct and practice in the provision of advice on equity release

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