'I'd think 100 times before doing it': Industry insiders on equity release

Equity release refers to taking money out of your home without having to sell the property. You can take the money you release as a lump sum or in several smaller amounts.

There are two ways to do this:

- **Lifetime mortgage**: This is the most common type and is a long-term loan secured against the value of your property. You borrow a cash lump sum and then choose to make repayments – -there is no requirement to pay it back monthly and you can just let the interest build up. The loan and the built-up interest must be paid back when the borrower dies or when they need to move into long-term care;
- **Home reversion**: You sell a part or all of your home to a provider in return for a lump sum or regular payments. You have the right to continue living in the property until you die and the reversion company then gets a share of the proceeds when your home is sold.

To be eligible for equity release you must:

- Be at least 55;
- Own a home in the UK and it must be your main residence;
- Have to meet a minimum property value – usually it's £75,000.

Pros

Richard Dana, founder and CEO of the family mortgage specialist Tembo, says the big benefit of equity release is it allows you to remain in the home you want to live in for the rest of your life without any risk of it getting repossessed.

It also allows you to "get access to cash where there might not be any other options".

"If people want to stay in their home but they want to repay an outstanding mortgage or they need some money for their retirement, they want to boost their retirement funds, that is the main benefit," he says.

Cons

But equity release comes with many pitfalls that need to be taken into consideration.

Mr Dana says while there is "a lot of regulation around it", it is "really expensive - particularly now".

"Unless you *have* to do it in the current environment, it's very expensive and it means the value of your assets that you might leave to your loved ones is going to go down a lot more. So you are going to be paying a lot more interest than you would have been," he says.

He says people must seek independent advice, speak with family and consider all options.

"Speak to not just an equity release broker but a mortgage broker - look at different options available to you. Depending on what you need the money for, you might be able to find alternative solutions, for example you can downsize."

Caroline Fletcher-Shaw, equity release legal expert at Wilkin Chapman Solicitors, says that as well as reducing your estate, and therefore any inheritance you want to leave, it could also impact state benefits, as your income may be higher.

She says equity release "tends to have a higher interest rate than other products".

Property finance expert Dr Alla Koblyakova warns borrowers are "practically losing their houses".

She notes that figures show 38% are using equity release for unsecured debt repayment which means "those people are in need".

"It's a good product to improve their lifestyle but the problem is how you spend the money," Dr Koblyakova says.

"If you are just paying existing debts that means you are losing your house and being charged such high interest rates. So you are having one debt to cover another debt which is expensive.

"I would suggest thinking 100 times before going for that sort of loan. If you can survive without that loan under the current climate I would suggest waiting until at least rates go down because then you would have less losses."

What advice would you give to someone being pressured into equity release?

"I think that would be an awful situation. Reputable companies shouldn't be going out there pressuring people to do equity release," Mrs Fletcher-Shaw says.

"If individuals are approached, they need to have the confidence to take that step back until they've sought professional advice.

"Financial advisers are key - they are going to be the ones that can really help individuals and understand their circumstances and whether an equity release would benefit them."

Dr Koblyakova warns: "As soon as someone is feeling pushed it means there is something wrong because a fair lender would never push anyone. They would explain in detail, trying to advertise the product but definitely not pushing the product."

One more thing to think about - inheritance tax

Mark Ashbridge, co-founder and managing director of Ashbridge Partners, a finance and mortgage advisory firm, says there are possible inheritance tax planning opportunities with equity release.

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"Inheritance tax is charged on the value of your assets at death - if you have released equity from your home and handed on the monies to the next generation that survive for the next seven years, then you have taken that out of your estate," he says.

"That can be quite an efficient planning tool because you can remain in your own home and you are not needing to service that interest."

It can also serve as a "means of assessing capital", he says.

However, he notes he has examples where it is more appropriate for the client to remain within the conventional mortgage market.

"Either because they don't want the loan for a long period of time, certainly not until their death, and so it makes sense to avoid the early repayment charges that could come with it."