Should You Review Your Equity Release

In simple terms these schemes are a way of unlocking tax free capital from your home whilst you retain the right to live in your property. We have always looked upon these as a last resort option after all avenues for obtaining extra capital have been exhausted and moving home is not an option.

Unlike, your deposit savings where depositors are chasing the best rates, these schemes once arranged are rarely reviewed which means that the outstanding debt could be building up faster than necessary. Does this matter? We think so and here are some of the reasons:

- You might not be able to rely on your property for the money you need later in your retirement, such as payment for your choice of long-term care home.
- Most schemes can be transferred to a new property but you might not have enough equity in your home to do this. This means you might need to repay some of your mortgage.
- If you’ve taken out an interest roll-up plan, there will be less for you to pass onto your family as an inheritance.

With the Bank of England base rate at an all-time low mortgages rates for lifetime mortgages (the most common form of equity release) remain relatively high. However, we have seen reductions up to 3%, where we have been able to remortgage the loan to another lender, which on a £100,000 loan would save approximately £48,000 over just 10 years!

There are two main types of equity release: lifetime mortgages, which allow you to borrow money against your house; and home reversion, whereby you sell a share in your house.

With a Lifetime mortgage, you borrow a proportion of your home's value. Interest is charged on the amount, but nothing usually has to be paid back until you die or sell your home. The interest is compounded or 'rolled up' over the period of the loan, meaning your debt could double in 11 years assuming a 6.5% interest rate.

With a home reversion scheme, you usually sell a share of your property to the provider for less than the market value. You have the right to stay in your home for the rest of your life if you wish. When you die or move into long-term care and the property is sold, the provider pockets their share of the sale proceeds. For example, if you sold 50% of your property to the provider, it would get 50% of the sale price.

Obviously you need the equity in your home to switch schemes but with property valuations at a high, this could be a good time to conduct a review. Switching could involve some costs such as exit penalties, new plans, valuation and legal fees but the savings could be substantial.