Equity Release (taking a loan on your home with no repayments) is on the increase, the first quarter of 2016 saw record levels of lending. It was also reported that the “Bank of Mum and Dad” is possibly the main source of deposits for offspring getting on the property ladder.

Now the desire to help one’s own children get a good start in life is normal, natural and to be welcomed but if any reader is contemplating Equity Release to raise deposit monies for their children please, I beg you, stop and think.

I wrote in 2012 about a case where Equity Release caused huge problems for a Widow. In brief: -

“*A 71 year old who had lost her husband after 50 years of marriage had insufficient income to live and remain in her property. Her household income fell by £700 a month as her late husband’s pension scheme did not provide a widow’s pension. She needed to replace a 12 year old car and to generate some income to help make ends meet. With no other savings, she could have considered Equity Release, using her house to generate a lump sum.*

The problem is they did this12 years earlier when her husband retired. They entered into an equity release mortgage of £30,000 at 8.5% p.a. fixed which was a competitive rate at that time. (2001) A new car, that now needs replacing, a new Kitchen plus a holiday or two and there was nothing left.

The issue is that the loan now (2012) *stands at just under £80,000 and is increasing rapidly. She could apply to the same lender for a further advance and might get another £30,000. But if she does and generates more income she will lose her benefits as her income (or capital) would exceed the allowable limit, so apart from a newer car she might not be any better off*.”

Now imagine that instead of the holiday’s the kitchen and the car, they had given the money raised to their Son as a deposit for his own home, her situation as a widow, would be no different, forced to live on a very restricted income.

Either way, she still has today potentially another 15 years or so normal life expectancy by when the Equity Release debt would have risen to £346,747. This must be re-paid from the sale proceeds of her home on her demise. Such a massive debt to gift £30,000 to her Son is simply ridiculous. He would inherit far more and they would both have enjoyed much better financial situations if Equity Release had not been entered into while she was so young.

Only too often we see the best of intentions produce catastrophic results. In the above case a car, a kitchen and a holiday (or a gift of £30,000) causing a woman to live on the breadline for maybe 18 years or more and leave potentially nothing to her family on her death is simply wrong.

The problem today is we are living longer and whilst Equity Release has its place in financial planning it should only be done after very careful consideration of all the alternatives and a discussion with a qualified professional, please see your IFA.