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Equity Release in Divorce

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Equity release is playing an increasingly important role in helping couples over 55 who have made the decision to divorce or separate. This can obviously be a challenging time, as separating couples work out how wealth and assets built up over many years are divided or shared. With sensible planning and the right advice, property wealth can provide valuable funds and get both parties on a firm financial footing for the future.

Homeowners over 55 are likely to have significant wealth built up in their property. If they plan to remain in their current home, they may need to raise funds to allow their partner to move on. If they are looking to buy a new home, they will be considering how much they can afford, and where they are going to buy. An understanding of equity release, coupled with the right advice, can help in both of these scenarios.

This short guide explains how property can play an important part in future plans and sets out the options available for unlocking property wealth to facilitate onward property purchases, enable one party to stay in the family home or give separating couples more time so they don't have to rush the sale of their home.

What is equity release?

'Equity' is the value of a property minus any mortgages or other debts secured on it. The term 'equity release' is used to describe two products; lifetime mortgages and home reversion plans, which provide a way of either releasing the wealth built up in a property, or raising additional funds if you are purchasing a property, providing you are over the age of 55. The most common form of equity release is a lifetime mortgage.

What is a lifetime mortgage?

A lifetime mortgage is a loan secured against your main home. It differs from a regular mortgage because there is no fixed term and the lender does not expect the loan to be paid back until the borrower either passes away or moves into long-term care. The mortgage is normally repaid from the sale of the house, and interest can either be paid monthly or, more typically, rolled up so there are no monthly payments to worry about.

Is it safe?

Providers and advisers in equity release must be authorised by the Financial Conduct Authority (FCA). Advisers must hold an additional qualification and follow the FCA rules. This means an adviser must go through a careful process, assessing all the pros and cons with their client. The trade body, the Equity Release Council, introduced a new standards framework in January 2020. All providers have signed up to a set of product standards. Knight Frank Finance are members of the Council.

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How can a lifetime mortgage help?

Property wealth will be one of the considerations in a divorce, and how this wealth is divided between both parties is likely to be a key part of the financial agreement. A lifetime mortgage can help in a number of ways:

1. One party could take out a lifetime mortgage to raise the funds to remain in their current property and take full ownership of it, giving their partner their share of the property value and therefore buying them out of the property.

2. If one party wants to move on, but their share of the financial agreement leaves them short on the purchase price of their next home, a lifetime mortgage can be used to top up the proceeds from the sale of the original home.

3. If income is an issue, a lifetime mortgage has several advantages. A divorce may result in a reduced income for one party, making the affordability assessment under a normal mortgage a challenge. With a lifetime mortgage there is no such assessment, because the interest can roll up, removing the need for any monthly payments. The amount that can be borrowed depends on a person's age and the value of the property, and it is often possible to arrange a flexible drawdown facility alongside the mortgage, in case additional funds are needed in the future.

How does it work?

The following examples are fictitious and designed to illustrate how a lifetime mortgage could be used to help one or both parties in a divorce. Everyone is different; we work closely with each client, their Solicitor, and trusted advisers to ensure they have the most appropriate solution. If equity release is not suitable, we will make this clear.

Example 1. Using a lifetime mortgage to stay in the family home

Mr Howard is 72 and has owned his home, worth £1,500,000, jointly with his wife for 16 years. She moved out some time ago and they are finalising their divorce. He is reluctant to move home, but has agreed to give his wife £600,000 of the property value, along with a proportion of his other assets, as part of their financial settlement so she can purchase a new home of her own.

By raising a lifetime mortgage secured on his home, we have enabled Mr Howard to borrow the £600,000 and effectively buy his wife's share of the property. His solicitor is also able to transfer the title into his sole name. He has decided to allow the interest to roll up, which gives him peace of mind, as he does not need to worry about meeting any regular mortgage payments. Instead the loan will be repaid from the sale of the house when Mr Howard eventually passes away or moves permanently into care.

Example 2. Using a lifetime mortgage to purchase a property

Mrs Abbott is 68 years old. She has recently separated from her husband and received £400,000 as part of their financial settlement. She wants to purchase a new home but is finding it difficult to find anything within her budget in an area she is familiar with. Her income is good, but she is worried about stamp duty and other related costs, as she does not have a lot of savings once the £400,000 has been spent.

A lifetime mortgage of £200,000 with a reserve facility of £50,000 has allowed Mrs Abbott to purchase a suitable property for £570,000. This is giving her sufficient funds to cover the stamp duty and all the associated costs. What's more, the reserve facility gives her access to additional funds should she need them in the future, perhaps for furniture and other items once she has settled in. It also provides access to funds in an emergency, giving her peace of mind that she has a safety net in place, and she won't pay any interest on the reserve until she draws down the funds.

Contact us, we'd love to help you.

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