Knight Frank Finance

Borrowing into retirement

Your guide to Later Life Finance

knightfrankfinance.co.uk

Knight Frank

If you are a homeowner in the UK, your home and any other properties have probably become one of your most valuable assets. Owning property brings with it great opportunities. If you're over 55, you may be considering your plans for retirement, you may want to support your family members to get onto the housing ladder, or you may want to go on a holiday of a lifetime. Whatever your aspirations are, there are specialist financial options available to help you achieve them.

There are a number of Later Life Finance solutions available to you, depending on your circumstances. This guide gives you a comprehensive summary of your options.

Your Options.

If you are a homeowner over the age of 55, you may find you're unable to access the wealth in your home through standard residential mortgages or other traditional solutions.

We provide advice on a range of Later Life Finance financial solutions which have been designed specifically for you. These solutions allow you to access the equity in your home for either a short period of time, for example because you want to move to a smaller home or a retirement home before your current home is sold, or for the long term, for example to help your loved ones financially, make changes to your home or take a dream holiday.

These options include:

- **Lifetime Mortgages**
- **Home Reversion Plans**
- **Retirement Interest Only Mortgages**
- **Short term finance loans**
- **Buy to let products only available to over 55s**

We can also talk to you about protecting your future financial needs and put you in touch with experts in:

- **Will writing**
- **Estate planning**
- **Lasting Power of Attorney**
- **Funeral planning**

Are you worried about a shortfall in your income when you retire? We can help you top up you pension income using the wealth you have built up in your home.

An increasing number of retirees are finding themselves asset rich but cash poor, as property values have been rising quickly while pension provision has not. What is known as a “drawdown facility” can be secured against your home to help you fund any shortfall in your income. We can find the right product to help you maintain your standard of living without having to sell your home or downsize.

Do you want to help your children or grandchildren onto the property ladder? The wealth you have built up in your home can be released as a gift to help them.

It has become more difficult for the younger generation to purchase their first home. A gift from parents and grandparents can make a big difference. We can advise you on the best way to use the wealth in your home to make living gifts to your loved ones.

What is Equity Release?

'Equity' is the value of your 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 you with a way of releasing the wealth tied up in your home and any other properties in the UK, providing you are over the age of 55.

Equity Release has increased in popularity amongst older homeowners for a number of reasons:

- **The desire to remain in the family home into retirement rather than downsizing**
- **The need to make home improvements and to improve the standard of living later in life**
- **An increase in life expectancy, meaning we all need to make our finances last longer**
- **A large number of homeowners in the UK with interest-only mortgage arrangements without a clear repayment strategy**
- **Insufficient alternative pension arrangements to top up the state pension**
- **Parents and grandparents wanting to help children and grandchildren get onto the property ladder**
- **Lenders who won't allow borrowing to be in place past retirement age**
- **Providers in this market have been steadily introducing cheaper, more innovative and more flexible options as demand has increased.**

Let's look at the main Equity Release products in more detail.

Equity Release Products.

Lifetime Mortgage

A Lifetime Mortgage is a loan secured against your main home. What makes it different from a normal mortgage is that there is no fixed term and the lender does not expect the loan to be paid back until the youngest applicant either passes away or moves into long-term care. The mortgage is normally then repaid from the sale of the house.

You can either manage the debt by making monthly payments or simply allow the interest to be added to the loan (interest roll up) so you have no monthly payments to worry about.

The amount you can borrow is based on the value of your property and the age of the youngest applicant. Lifetime mortgages can be used for almost any reason. The most common are:

- Helping children or grandchildren buy property, by providing their deposit
- Making home improvements
- Repaying an existing mortgage and/or reconciling debts
- Providing a gift to loved ones
- Increasing your monthly income
- Travelling
- Purchasing a new property to live in
- Making a luxury purchase
- Inheritance Tax liability planning (we can put you in touch with a tax expert if you are concerned about this)

Advantages

- You retain ownership of your property. This means you can make changes to it, redecorate or improve it if you wish
- You can never owe more than your house is worth. The majority of Lifetime mortgage lenders provide a 'no negative equity guarantee
- You can move home (as long as you either repay the loan or take it with you and your new home is acceptable to the lender)
- You can use the funds for almost any purpose

Disadvantages

- The loan will steadily increase over time, unless you pay the interest
- The value of your estate may decrease
- Your entitlement to state benefits may be affected

Home Reversion Plan

A Home Reversion Plan will provide you with a lump sum in exchange for the purchase of your entire home, or a large proportion of it by the plan provider. This means you no longer own your home, however you will be allowed to live in it as a tenant for the rest of your life, with little or no rent to pay. What the providers will pay for your home is based on your age and therefore how long you might live there as a tenant, so you will not receive the full market value of your property.

Advantages

- **If you do retain a share of the property, it will increase in value**
- **No monthly payments are required**
- **The funds released are tax-free and can be used in the same way as a lifetime mortgage. For example, you can pay off debts, gift money to relatives or undertake home improvements**

Disadvantages

- **The amount of money offered for the share of your home will be significantly below market value**
- **You no longer own your home. If you wanted to buy it back you would need to purchase it at the full open market value**

Do you need to make changes to your property? We can help you fund those home improvements

A new kitchen, bathroom, conservatory, windows or carpets can make your home feel fresh as well as enhancing its value. We can advise you on the right product and most cost effective way to raise the funds you need.

Your peace of mind.

We are proud to be members of the **Equity Release Council** and promote the council's guidelines. The Equity Release Council is the industry trade body. Their role is to ensure consumer safeguards are in place and to promote the highest standards of advice and conduct in the equity release market.

As members, we will:

- Ensure that all our actions promote public confidence in equity release as a potential retirement solution
- Act at all times in utmost good faith
- Communicate high expectations for equity release outcomes in all our dealings
- Ensure conflicts of interest are managed fairly and reduced to the lowest practical level
- Exercise due skill, care and diligence in all that we do and uphold the standards set out by our professional bodies at all times
- Always act with the best interests of our clients being paramount, treating customers fairly in all our actions.

Equity Release Council standards:

- No Negative Equity Guarantee — you or your family will never owe more than the value of your home
- You will not lose your home and can remain there for as long as you wish providing it remains your main residence
- For lifetime mortgages, interest rates must be fixed or, if they are variable, there must be a "cap" (upper limit) which is fixed for the life of the loan
- You can move to another suitable property subject to the new property being acceptable to your product provider
- You will receive independent legal advice from a solicitor of your choice

What other Later Life Finance options are available?

Short-term finance

We can provide you with options that bridge the gap between selling your existing home and buying a new property. This can help if you are part of a delayed or broken chain, need to move quickly for health reasons, or would prefer to move before your current home is sold so you can decorate and maximise the sale price you achieve.

Short-term finance can be in place from one day up to 12 months if required. There are no monthly payments and the initial costs are kept to a minimum. Instead the interest and any charges can be added to the loan. You can complete your new purchase quickly and then sell your existing home at your leisure (as long as it is sold within the 12 months). There are no early redemption charges if the loan is paid back before the agreed term. The convenience and speed of such a short term solution obviously comes at a slightly higher price than other forms of finance, so we will take you through the costs carefully and make sure it works for you.

Retirement Interest Only (RIO) mortgages

If you have a steady income and can continue to meet mortgage payments, a retirement interest-only mortgage might be an attractive way to release the equity you have in your property.

As your interest-only mortgage comes to an end, you may be told you are not eligible to extend or take a new mortgage due to your age, depending on your current lender's criteria. A retirement interest-only mortgage will allow you to continue making monthly interest payments and stay living in your home. The debt will not increase as long as the monthly payments are made.

These types of mortgage can be in place until you or your partner pass away or move permanently into care, or you can choose to have a fixed term. Lenders will make a full assessment of your income and outgoings to check you can afford the interest payments.

Advantages

- The mortgage amount will remain the same for the life of the loan
- The cost of the mortgage will be lower than a repayment mortgage, and interest rates are typically lower than Lifetime Mortgages
- You will enjoy any increase in value of your home (as long as you continue to meet the interest payments)
- You may be able to borrow more than you could with a lifetime mortgage

Disadvantages

- You will need to make monthly payments which means your disposable income will be reduced
- Your debt will not reduce unless you make payments towards the capital
- There will be credit and affordability checks in order to qualify for a retirement interest only mortgage

Buy-to-let in retirement

There a number of buy to let lenders in the market that will offer loans to landlords until age 90, subject to the type of property and the type of tenancy agreement in place.

As a landlord, you can also borrow using an 'over 55s Buy to Let Mortgage'. These work in the same way as a Lifetime Mortgage, which means the interest can roll up on top of the loan. This means you can benefit from the full income generated by your let property. These mortgages do not have any affordability assessment, and the loan is based on the value of the property and the age of the youngest applicant.

Advantages

- You can release equity from your existing investment properties, or use a buy to let mortgage to purchase more property and increase your rental income
- With some schemes there are no minimum income requirements

Disadvantages

- Some Buy to Let mortgages are subject to a 'stress test' and other underwriting criteria, which may make raising the money you want more difficult. Speak to our experts about this

How we will help you.

Our experienced advisors can help you find the right option for your specific circumstances. We'll explain the process involved in releasing wealth and ensure that you make an informed decision.

1 Get in touch

Call us or email us and we'll put you in touch with one of our Later Life advisors

2 Gather the facts

If appropiate we will arrange a meeting with you either face to face or over the phone to find out what you'd like do

3 Research

We will search the market and find the right option for you

4 Recommendation

You'll receive a recommendation from us, and we encourage you to involve your beneficiaries at this stage

5 Application

Once you are ready to proceed, we will manage your application for the financial option, and liaise with the provider on your behalf

6 Valuation

We'll assist you in arranging a valuation report for your property. This will be needed as part of the application

7 Solicitors

We will also liase with your chosen solicitor throughout. They will deal with all the legal requirements

8 Completion

Once all the legal requirements are met, a completion date will be agreed and the funds will be sent to your solicitor

Contact us, we'd love to help you.

+44 (0) 20 3504 5491
info@knightfrankfinance.com
knightfrankfinance.co.uk