What is it?

Lifetime mortgages are one of the two main types of equity release. The other is a home reversion plan.

A lifetime mortgage is a long-term loan where you borrow money secured against the value of your home to give you a lump sum and / or a regular income. The loan is repaid to the lender when the property is sold, on death, or when you move into long term care. If there is any money left after the loan is paid off, it will go to your beneficiaries. You retain ownership of your home.

There are two main types of Lifetime Mortgages. These are:

- Interest only mortgages
- Interest roll-up mortgages

With both of the above types of Lifetime Mortgages, some lenders allow you to take a regular income rather than a lump sum. This can mean that you accrue less interest as interest is only charged on the amount you actually receive – i.e. interest is only charged on the monthly payments you receive.

Some lenders also offer a flexible lifetime mortgage, where you can take a smaller lump sum at the beginning, then draw down further borrowings as and when required.

Interest only mortgages

With an interest only mortgage, you borrow a lump sum secured against the value of your home. You pay interest on the loan each month, and the lump sum you originally borrowed is repaid when your home is eventually sold. You need to be able to afford the monthly interest payments out of your pension or other income.

The interest rate may be fixed or variable. But if it is variable, and your pension or other source of income is fixed, you may find it more difficult to meet your repayments if interest rates rise.

Interest roll-up mortgages

No interest payments are made to the lender. Interest is rolled up and paid on redemption, death or if you move into long term care.

Advantages

You benefit from any future house price inflation.

Disadvantages

With a rolled-up interest loan, the amount you owe continues to grow because you do not make any repayments and therefore the interest on the loan is added to your debt on a continual basis. This means that there could be no value left in your home to pass on to your family at the end of the mortgage.

Risk considerations

There are a number of risk considerations that need to be taken into account. It is important that you are aware of these.

- If you take out an equity release plan too early in life, you may not have enough value left in your home to move to another property later on.
- You may experience problems if you decide to move. Although the majority of lenders allow you to move from one property to another, moving may be difficult if the new property is more expensive than the equity remaining in your current home.
- Some properties are not accepted by lenders i.e. sheltered housing, as these are typically hard to sell.
- Using equity in your home will affect the amount you are able to leave as an inheritance.
- Any means tested state benefits (both current and future) may be affected by any equity released.
- Taking out an equity release scheme will affect you in the short and long term. You need to be sure you are happy with the scheme now and that it will suit your objectives now and in the future as far as you are able to judge.
- Most schemes do not allow you to pay off the loan early. If you decide to repay the loan early, the majority of lenders apply an early repayment charge. Charges for valuation, administration, advice, and legal fees may apply.
- Your home may be repossessed if you fail to abide by the terms of the contract as detailed within the mortgage offer.
- Typically, any outstanding mortgage(s) will need to be fully repaid before entering into an equity release contract.
- If any relevant information provided has not been disclosed accurately and honestly, this could result in any offer made, becoming invalid.
- Failure to disclose any requested or relevant information may adversely affect any offer made.
- It is important that you fully read and understand the terms and conditions of the mortgage prior to going ahead.
- Specialist lenders' products tend to be less competitive than those generally available.
- Equity release can be more expensive when compared to an ordinary residential mortgage.

Additional risk considerations relevant to where regular payments are being made

- The payments shown in the Key Facts Illustration provided could be considerably different, and higher, if interest rates change
- In the event that your income falls, you will still have to make your mortgage payments
- Your home may be repossessed if you do not keep up payments on your mortgage

Equity release council

The Equity Release Council is the industry body representing the lenders, providers, qualified financial advisers, lawyers, intermediaries, and surveyors who work within the equity release sector. It was launched in May 2012 and is dedicated entirely to the protection of plan holders.

Members display the Equity Release Council logo in their brochures and other printed material as a guarantee to their clients.

All participating companies are pledged to observe the Equity Release Council's Statement of Principles, which puts in place a number of safeguards and guarantees for consumers.

In addition to these Statements of Principles, members voluntarily adopt further safeguards, including:

Product standards

All of the following standards must be met in order for a company to state that their product meets these standards:

- Interest rates for lifetime mortgages must be fixed or, if they are variable, must be 'capped', for the life of the loan
- Providing the property remains your main residence and you adhere to the terms and conditions of your contract, you must have the right to remain in your property for life or until you need to move into long term care
- You have the right to move to another property subject to the new property being acceptable to your lender / product provider as continuing security for your equity release loan
- The product must have a 'no negative equity guarantee'. This means that when your property is sold, and agents' and solicitors' fees have been paid, even if the amount left is not enough to repay the outstanding loan to your provider, neither you nor your estate will be liable to pay any more.
- All clients taking out new plans which meet the Equity Release Council standards must have the right to make penalty free payments, subject to lending criteria.

Independent legal advice

You may choose your own solicitor to carry out the legal work in connection with your plan. Before the plan is completed, your solicitor will be provided with full details of the plan, including the rights and obligations of both you and your lender / product provider under the contract, should you choose to go ahead.

As a further safeguard, your own solicitor, who will oversee the transaction on your behalf, must sign a certificate to acknowledge that the essential features and implications of your chosen equity release plan have been brought to your attention. No equity release plan can proceed without a signed certificate.

Information about and explanation of your equity release plan

You will be provided with a fair, simple, and complete presentation and explanation of your equity release plan. The benefits and limitations of the plan will be clearly set out, together with your obligations under the terms of the contract.

You will be given information about:

- All the costs that you will have to bear in setting up the plan
- The tax implications
- What will happen if you wish to move to another property, and
- How changes in house values may affect your plan

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