Home Finance


# Equity Release Explained

## Customer Guide

canada life™


Imagine your retirement lifestyle

Property wealth is playing an increasingly important role in retirement planning, with more and more people recognising that their home is their biggest asset.

**Imagine the possibilities.**

Imagine the opportunities of using your property wealth to boost your retirement lifestyle.

# Introduction

**Equity release has become increasingly popular. The amount of equity being released has grown in recent years, reaching £6.2 billion by the end of 2022. And with popularity set to continue increasing, we are expecting many more homeowners to tap into their property wealth.**

**There are several factors behind this growth. First, market innovation has seen the number of later life products grow by a third between 2021 and 2022 – giving customers increased flexibility and certainty.**

Second, just as society changes, so do the reasons why people use lifetime mortgages. While many people continue to use the product to fix up their home, an increasing number of people are using lifetime mortgages to support their retirement income or fund dream holidays.

Third, fewer people are buying into some of the myths surrounding lifetime mortgages. But some misconceptions persist, and so we have dedicated a whole chapter to clarifying the most common ones.

The flexibility and certainty offered by lifetime mortgages are a large reason why they are the most popular type of equity release product. Many people value the option to stay in their home, while accessing the wealth stored in their property. This option to age in place means that people don't have to downsize and can continue to live in familiar surroundings.

Additionally, lifetime mortgages give people greater freedom to use their wealth as they want. For example, we are seeing more people access the cash tied up in their home to pass on money to loved ones, either by helping them get on the housing ladder, or gifting money to help with school or university fees.

Taking out a lifetime mortgage, a loan secured against your home, is a long-term commitment that you should consider carefully. It will reduce your inheritance and could impact your tax situation and entitlement to means tested benefits.

We hope this guide is useful and answers some of the questions you, your friends or your family may have.

## Equity release

There are two types of equity release: lifetime mortgages and home reversions. Both types allow you to stay in your home and release a lump sum of cash from the equity (value) stored in your property. However, unlike home reversions, lifetime mortgages enable you to retain ownership of your home.

We offer a range of lifetime mortgage products that suit a wide variety of needs.

## Eligibility

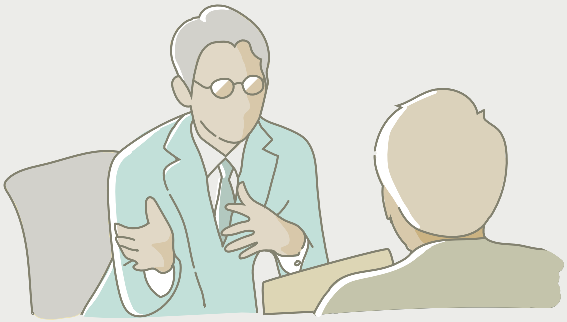
To be eligible for a lifetime mortgage, you will need to meet some key requirements, the most basic of which are:

- You must own the property
- You must be a UK resident
- You must be 55 years of age or older
- Your property must be in England, Scotland or Wales. Some product providers also cover Northern Ireland.
- Your property must be your main residence. With some product providers, your property could also be a second home.

The other requirements relate to your personal circumstances and your property, which a financial adviser will be able to explain to you.

# Common concerns

Lifetime mortgages have been around for a long time. And while the product has changed a lot in that time, not everyone is aware of the important developments. Below are the most common misconceptions we hear.



### "It's unsafe and unregulated"

The industry is regulated by the Financial Conduct Authority (FCA), and all lenders and advisers must adhere to their standards. Lenders are commonly also members of the Equity Release Council – the lifetime mortgages trade body, which is dedicated to protecting people that hold equity release plans – and must observe their code of practice.

### "I'll end up owing more than my home is worth and leave my loved ones with debt"

Our products come with a 'No Negative Equity Guarantee'. This means that when your home is sold, we guarantee that we will not ask you or your loved ones to pay the shortfall, if solicitor and estate agents' fees do not leave you with enough to pay the amount owed to us.

If your home is sold for more than the amount you've borrowed against it, the amount left over belongs to you or your loved ones.

### "I have to stay in my property for the rest of my life"

If you want to, you can stay in your home for the rest of your life. Or, if you'd prefer a change of scenery, you can choose to 'port' your lifetime mortgage to your new home, providing it's suitable to the mortgage provider. This means that when you move into your new home, you take the mortgage with you.

### "The interest rolls up quickly and the debt grows in size"

If you choose an interest roll-up mortgage, the outstanding balance will grow quickly over time. This is because interest is calculated on a daily basis and added to the mortgage balance each month.

If you want to reduce the impact of interest roll-up, you can choose a product that allows you to make repayments. Much like a traditional mortgage, most lifetime mortgages give you the option to make ad-hoc capital and interest repayments.

# Common concerns

### “Products are expensive”

Lifetime mortgages are typically more expensive than traditional mortgages. However, they are a different type of mortgage lending, and they offer an interest rate that is fixed for the life of the mortgage, which can be 25+ years long.

The products also come with safeguards which traditional mortgages don’t offer. You can read more about these on page 16.

### “It’s not possible to reduce the debt”

Most lifetime mortgages offer the option to make partial, or full, repayments. Some plans may charge for this, but for mortgages with fixed early repayment charges, you will already know about the penalty fee before signing up to the mortgage.

You can also choose a product that allows repayments, so that you can reduce the balance throughout the mortgage term.

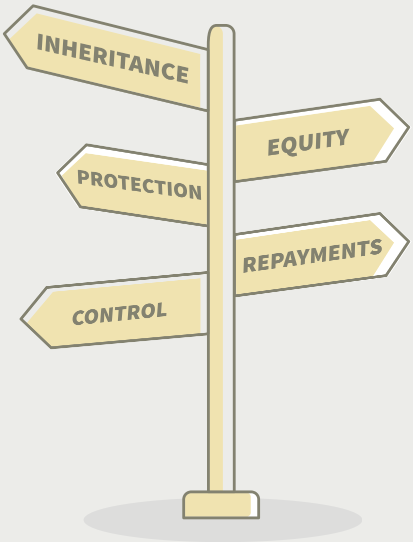
### “I can’t change my mind”

Whilst a lifetime mortgage is a long-term commitment, you can choose to pay back the full loan amount at any time. There may be a charge for this, but for mortgages with fixed early repayment charges, you’ll know about the penalty fee before signing up to the mortgage.

Some of our products offer features that let you clear your mortgage without penalty:

- ***Early Repayment Waiver***
  If you take out a lifetime mortgage with a partner or spouse, in the unfortunate event that your partner or spouse passes away or goes into long-term care, you will not need to pay an Early Repayment Charge if you repay your lifetime mortgage within 3 years.

- ***Downsizing Protection***
  If you have held a lifetime mortgage for 5 years and you want to repay the loan because you are selling your home and moving to a different property, you won’t need to pay an Early Repayment Charge.




## "I can't take out equity release if I still have a mortgage"

If you want to take out a lifetime mortgage but still have a traditional mortgage, you will need to clear the traditional mortgage with the money you release. This is because there can usually only be one charge on the property. Some lenders may allow two charges on the property, but this is not always the case.

Clearing a traditional mortgage is one of the most popular reasons for taking out a lifetime mortgage, with more than two-fifths of customers using it for this purpose.

## "I'll lose ownership and control of my home"

With a lifetime mortgage, if you stick to the terms and conditions of the loan, you will always retain ownership and control of your home. This means that you are still responsible for looking after the property.

## "I can't leave an inheritance to my loved ones"

If leaving an inheritance is important to you, your financial adviser will be able to recommend a product that meets your needs.

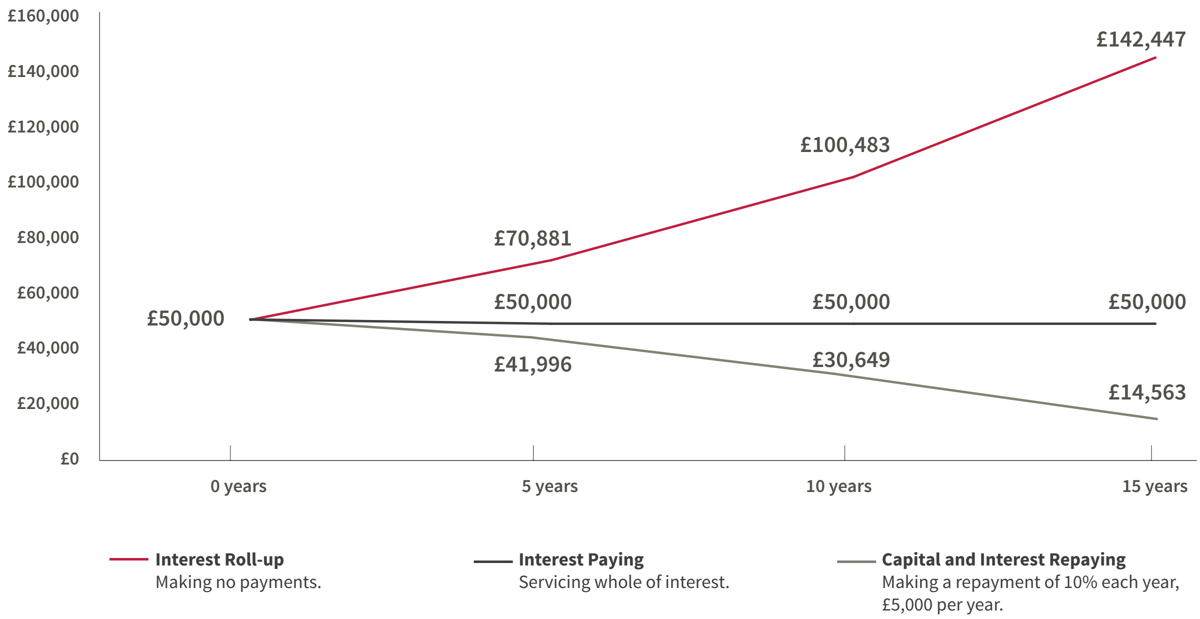
You can take advantage of a number of product features to ensure that you leave an inheritance. For example, if you apply an 'Inheritance Guarantee' to your lifetime mortgage, you can protect a percentage of the eventual sale value of your home from the outset, so it is available to you or your loved ones in the future.

Another option is to make regular or ad-hoc payments, which will reduce the outstanding loan balance and help reduce the impact of interest roll-up. You can see the impact of making payments on the next page.

# Making payments

**Here, we show the impact of making payments on the overall mortgage balance. The graph below shows three options, and the outstanding loan balance 15 years after the mortgage has been taken out:**

- **The red line** illustrates a mortgage where no payments are made during the mortgage. The balance after 15 years is £142,447.
- **The dark grey line** illustrates a mortgage where all the interest is paid off each month. The balance after 15 years remains £50,000.
- **The light grey line** illustrates a mortgage where all the interest and some of the capital is paid off each year. The balance after 15 years is £14,563. Please note, a minimum loan balance of £10,000 is required.




**To be able to compare the product options, we've applied an annual interest rate of 7.23% to each product. To see our current interest rates, please visit www.canadalife.co.uk.**

**Interest roll-up**

**Interest roll-up is where the interest on your loan is added to the mortgage balance each month, which increases the size of the total amount owed. You can see the impact of this in the graph above (the red line).**

**At Canada Life, we have played an important role in creating new lifetime mortgage products that keep up with the changing demands of individuals' financial plans.**

Our lifetime mortgages are interest roll up mortgages with the option to make voluntary repayments. There are different product features that can be tailored to best meet your needs and help you realise your goals – whether that be adapting your home or paying for a new car.

# Flexibility

**One of the major changes to lifetime mortgages has been the rise in flexible plans that give you greater freedom and control over how you unlock the wealth stored in your home, while you retain ownership of your home.**

You can decide to withdraw the money from your home as a tax-free lump sum, or you can draw down smaller amounts from a reserve facility as and when you need it. Additionally, by choosing a plan with a cash reserve facility, you can withdraw more funds later without requiring further financial advice.

And depending on your financial needs, you can decide whether making no repayments would work best for you, or whether you would prefer a repayment plan that helps reduce or remove the impact of compound interest.

**Reserve facility**

A reserve facility is a key part of drawdown lifetime mortgages, which are the most flexible and popular plans. When taking out a drawdown lifetime mortgage, you take an initial lump sum and keep the rest in a cash reserve facility – essentially a pre-agreed pot of cash – ready for you to access when you need it. You'll only pay interest on the cash when you've withdrawn it from the facility.

## Certainty

**We know that certainty and clarity is really important to giving you peace of mind. That is why we have ensured our lifetime mortgages are transparent and simple to understand.**

If you want to reduce or remove the impact of interest rolling up on your loan, we offer the option to make voluntary repayments to our lifetime mortgages. The amount you repay for these products is always fixed, giving you comfort to make plans accordingly.

You can also repay the full loan amount on your lifetime mortgage at any time. However, there may be an early repayment charge (ERC) if you want to repay money before the dates set out in your contract. But these ERCs are fixed too, so you know where you stand throughout the mortgage term.

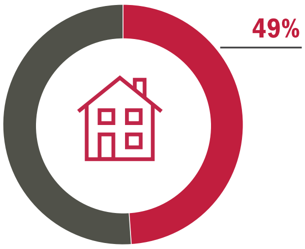
And depending on your circumstances, you may be eligible for an ERC waiver (see page 8 for more detail).

# Why are customers using lifetime mortgages?

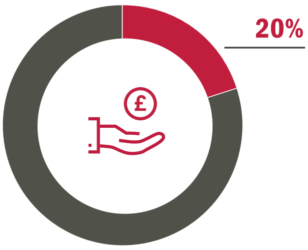
## In 2022, the average initial advance taken by a customer was £143,000. People choose to use the cash they release from their property for a wide range of reasons, but here are some of the most popular uses:

### To boost their finances

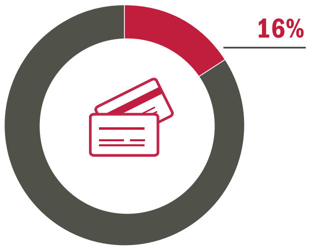
A growing number of people are choosing to clear their existing interest-only mortgage using the money they release. Others are using the cash to repay unsecured debts, such as credit cards or loans, or to top up their retirement income.




Clear an
outstanding mortgage



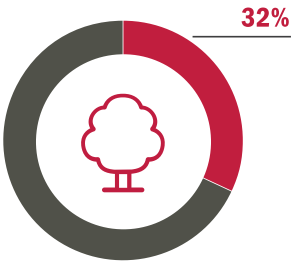

Top up
day to day living



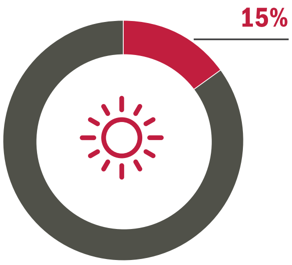

Pay off
unsecured debts

### To enhance their retirement

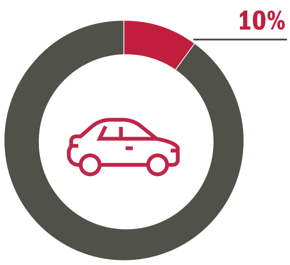
More and more customers are choosing to use the cash to enjoy their retirement. Here are some of the ways:




To make home or
garden improvements



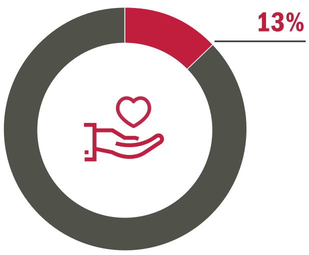

To go on holiday




To buy a new car
or caravan

### To support their family and friends

Parents and grandparents are increasingly helping their loved ones, whether it's to help them get on to the property ladder, go to university, or pay for their care.




Support loved ones

Source: Canada Life. Initial advance applications, 2021.

# Who’s involved?

There are a number of people involved in the process of getting a lifetime mortgage – from your friends and family to a range of professionals. Everyone has an important role to play in ensuring you choose the product that best meets your needs.

## Family and friends

We always recommend that you discuss your plans with your friends and family. They can be a great sounding board, as well as offering advice and support that will help you through the process.

Additionally, we know that 14% of people used the money they released to support family members last year – making lifetime mortgages very much a family matter.

## The financial adviser

Releasing equity from your home is a big decision. So to make sure that you make the decision that is right for you, we only sell our lifetime mortgage products through financial advisers.

Your financial adviser will help you decide if a lifetime mortgage is the right choice for your needs and circumstances, recommend the most suitable product and help you navigate through the process.

## The lender

The lender is the company that will provide you with the mortgage.

## The valuer

The valuer is appointed by the lender to determine your property value. The valuer will work for a company independent from the lender, so they are not biased in their valuation.

The valuer will arrange a visit to your property and complete a mortgage valuation, which they will then send to the lender.

## Lender’s solicitors

The lender will work with a law firm that will do the conveyancing on behalf of the lender. A solicitor at the firm will make sure that the paperwork is complete and register your mortgage at Land Registry.

## Client’s solicitors

To make sure you fully understand the implications of your decision to take out a lifetime mortgage, all members of the Equity Release Council require that you discuss it with your own solicitor before committing to a lifetime mortgage.

You will need to meet your solicitor face-to-face at least once during the process. Your solicitors will then liaise with the lender’s solicitors to sign off on all the paperwork and agree a completion date. When the mortgage deal is finalised, your solicitor will also receive the money from the lender and will make arrangements to transfer it to you.

# What's the process?

### 1. Research

Before taking out an equity release product, it's important to research all of your options to make sure it's the right choice for you.

### 2. Talk to your family

As a lifetime mortgage could affect your family, we encourage you to talk to them before making a decision.

### 3. Talk to your financial adviser

You must talk to a qualified financial adviser about the possibility of taking out a lifetime mortgage. If they decide that it's right for you, they'll provide you with a summary of the important details and costs involved – a 'Key Facts Illustration' document.

### 4. Fill out an application form

Once you're happy, you'll need to complete an application form, which your financial adviser will help you with.

### 5. Have your property valued

An independent valuer will then contact you to arrange a convenient time to visit your property to carry out a valuation.

### 6. Appoint your solicitor

You will need to choose which solicitor firm you want to proceed with.

### 7. The lender will make you an offer

Following the valuation, the lender will confirm how much you can borrow, and send an Offer Letter to you, your solicitor and your financial adviser.

### 8. Legal process

You should then talk to your solicitor about the offer, who will explain the terms and conditions of the contract. If you're happy, you'll be asked to sign a Mortgage Deed. Your solicitor will sign a certificate to confirm the essential features and implications of the plan have been explained to you.

### 9. Cash released

Once the lender has received the correct documents and carried out the necessary checks, they will release the cash to your solicitor.

# Safeguards

**All of our lifetime mortgage products come with safeguards that give you the clarity and certainty needed for complete peace of mind.**

### We're a member of the Equity Release Council and adhere to their product standards.

We're proud to be a member of the Equity Release Council, the industry body for the lifetime mortgages sector. All of our lifetime mortgages adhere to the Council's Statement of Product Standards.

This includes a guarantee that the lifetime mortgage interest rate must be fixed or, if it is a variable rate, there must be a 'cap' (upper limit) that is fixed for the life of the loan. The full list of protection measures can be found on the Equity Release Council website.

### No Negative Equity Guarantee

This guarantee is applied when your property is sold for a fair market price and as long as you have adhered to the terms and conditions of the mortgage. It means that when the property is sold, if the proceeds after solicitors' and estate agents' fees are not enough to pay the amount owed to us, we will not ask you or your beneficiaries to pay the shortfall. If your property is sold for more than the amount you've borrowed against it, the amount left over belongs to you or your beneficiaries.

### No threat of repossession

Providing you keep to the terms and conditions of your loan, you will be able to live in your home until your death or you move into long-term care. You don't have to worry that your home will be repossessed due to the loan, including rolled-up interest, exceeding the value of the property.

# Considerations

**There are various reasons why people choose to tap into their property wealth. Some use the equity to top up their pensions, others to help pay off their mortgage.**

Today, more people are using lifetime mortgages to gift a lump sum to their children or grandchildren to help them get on the property ladder.

Whatever the reason, taking out a lifetime mortgage is a long-term commitment that you should consider carefully. Before signing on the dotted line, you should consider the other options available to you, such as downsizing, paid work or using any savings you have.

And before you apply for a lifetime mortgage, we suggest that you talk to your family about getting a lifetime mortgage. Your tax position, eligibility for means-tested state benefits and the amount of inheritance your friends and family receive are all subject to change. Getting all the relevant people together will make it less likely that you'll have to have difficult conversations later on.

Additionally, lifetime mortgages come with a number of features and benefits, but you and your adviser will need to discuss how these products will meet your needs and circumstances. As with any financial product, there are risks as well as benefits.

## Benefits

- You still own your home, and you can stay in your home for the rest of your life
- The money you release is tax free
- You'll never owe more than the value of your home, because our products come with the 'No Negative Equity Guarantee'

## Risks

- Your entitlement to state benefits and grants might be affected by taking out a lifetime mortgage
- A lifetime mortgage could work out to be more expensive than selling your home in the long run
- The size of your estate will be reduced
- Taking out a lifetime mortgage is a significant financial decision, it's not for short-term financial needs.

# Getting in touch

Your financial adviser will be able to answer any questions you may have about our range of products.

You can also contact us in the following ways:

**By post**
Canada Life Home Finance,
Canada Life Place, Potters Bar,
Hertfordshire, EN6 5BA.

**Call us**
0800 068 0212

**By email**
hf-customers@canadalife.co.uk

**Online**
www.canadalife.co.uk

**Imagine the possibilities of using your property wealth to enhance your retirement lifestyle, with added safeguards for extra peace of mind.**

30-190 0723R