INVEST SOUTHWEST
INDEPENDENT FINANCIAL ADVISERS

Home Reversion Plan

What is it?

Home reversion plans are one of the two main types of equity release products. The other is a lifetime mortgage.

A home reversion plan 'unlocks' all / some of the capital tied up in your home.

A home reversion plan is not a mortgage and involves you selling your home, or a proportion of it, to a home reversion plan provider in return for either a monthly income or a lump sum.

You retain the right to live in the property as a tenant (but paying no rent) until you die or move into a nursing home on a permanent basis.

There are two main types of Home Reversion Plans. These are:

- Full reversion
- Partial home reversion

Full home reversion

You sell your home in full and have the right to live in the property as a tenant* until you die or move into a nursing home on a permanent basis.

The home reversion provider will own your home outright and will benefit from any increase in its value from the date of sale.

Partial home reversion

You sell a specific percentage of your home and have the right to live in the property as a part owner / part tenant* until you die or move into a nursing home on a permanent basis.

When the property is sold, the proceeds are split accordingly to the equity share owned by both you / the home reversion provider.

You may / may not be able to transfer your partial ownership of the property – this will depend on the conditions set out within the agreement between you and the home reversion provider.

Many reversion plans require you to pay rent and is often only a nominal value i.e. £1 per month. The actual amount you will need to pay should be disclosed before any agreement is made.

Advantages

With a partial home reversion plan, you can leave the unsold proportion of the value of your property to your beneficiaries

Disadvantages

When you sell your home in full, you do not benefit from any increase in the value of your property from the date of sale.

You will not get the full market value when you sell your property (or part of it) to a home reversion provider. Providers will typically only pay from 35% - 60% of your home's current value, sometimes less.

You cannot change your mind once you have taken out a home reversion plan. It is important to make the right decision at outset.

Options on Home Reversion plans:

Early Vacancy Guarantee / Inheritance Protection guarantee

A home reversion plan is partly based on your life expectancy. If you die or move into permanent long term care much sooner than expected, a home reversion plan can be an expensive way to release money from your property. The early vacancy guarantee / inheritance protection guarantee provides a minimum payment to you or your estate if you die or leave the property for long term care within the first few years of the policy. This is an option which is only available with certain plans.

High House Price Inflation Protection

A high house price inflation protection option allows you to share in the benefit of any house price increases and will provide you or your estate with a percentage of the increase when your house is eventually sold. This is an option which might not be available with every plan.

Eligibility

This will depend on a number of factors, such as how much your property is worth, your outstanding mortgage and your age.

You will have little or no mortgage outstanding. And will usually need to use the amount released to pay off any existing outstanding mortgage.

Typically the older you are when you take out a home reversion plan, the higher the percentage you will get of your home's market value at that time.

Death of self and / or partner

Where the plan is in joint names, the surviving partner can continue to stay in the home. On the death of the

surviving partner, the property is will be sold and the provider will pay any remaining monies to your estate.

Where the plan is in one name, the property will be sold and any money left over would be paid to the beneficiaries.

Long term care

Where the plan is in joint names, if both of you had to move into long term care, the plan would end and your home would be sold. The plan will continue if only one of you has to move into a care home.

Negative equity

Most providers offer a 'no negative guarantee'. This means that you or your beneficiaries will never have to repay more than the value of your home. It also means that the provider, not you, carries the risk of negative equity. Furthermore, you have the right to continue living in your home until the death of you and your spouse, or until you both enter a care home.

Repairs and maintenance

You are responsible for keeping your home in good repair. If you don't maintain your home, the plan provider can arrange to do the necessary repairs and you will have to pay for them, or the cost could be added to the amount the provider will receive at the end of the plan.

Inheritance

Taking out an equity release product will reduce the value of your estate and amount your beneficiaries will inherit on your death.

Further advances

With a partial home reversion, where you might need to raise further funds in the future, some plans allow you to apply for a further lump sum but there are circumstances in which this may be withdrawn or restricted in certain circumstances as detailed on the Key Features Document.

In order to take out a further lump sum, there would need to be enough equity in your home.

Taxation

Equity released from a property will not normally raise a capital gains tax or income tax liability. However, income arising from an investment purchased by money raised by an equity release product may create a tax liability. Furthermore, if the money raised is placed in a bank or building society account you may be subject to income tax on any interest paid.

All statements concerning the tax treatment of products and their benefits are based on our understanding of current tax law and HM Revenue and Customs' practice. Levels and bases of tax relief are subject to change.

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 product too early in life, you may not have enough value left in your home to move to a property later on.
- 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 product 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.
- Selling your home (or part of) could affect any rights to claim grants and allowances for certain home improvements or energy saving alterations i.e. cavity wall and roof insulation.
- As a tenant, your right to occupy will be subject to you abiding to the terms within the tenancy agreement.
- You will be responsible for keeping the property in good repair.
- Typically any outstanding mortgage(s) will need to be paid off in full.
- 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.
- Specialist lender's products may be less competitive than those generally available.
- Equity release can be more expensive when compared to an ordinary residential mortgage.
- Releasing funds now may have an impact on your ability to fund for later life financial requirements i.e. long term care funding.

Equity release council

The Equity Release Council is the industry body representing the 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 customers.

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 product provider as continuing security for your equity release loan
- The product must have a 'no negative equity guarantee'

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 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 and simple presentation and explanation of your equity release plan.

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