Peter Maxwell-Lyte

0207 993 2882

07710 065700

Peter@maxlyte.co.uk

Proud to be a Member of

EQUITY RELEASE COUNCIL

Incorporating SHIP Standards

Lending in Retirement

NEWSLETTER

February 2015

IN THIS ISSUE

PROPERTY TAKES PRIME SPOT IN RETIREMENT

The recent overhaul of the pensions market, brought about by the recent Budget, means that record numbers of home-owners are releasing equity from their property through lifetime mortgages.

Figures from the Equity Release Council show that in the last two years the equity release market has grown by 36 per cent and this figure is still climbing. The market has been transformed over the last decade, with lenders offering more innovative and flexible products. Reports show that people are carrying more debt into retirement and demand for a lifetime mortgage will continue to increase as mainstream lenders restrict their lending criteria further.

The FCA's thematic review into interest-only mortgages revealed there were over two-and-a-half million interest-only mortgages due for repayment by 2041. As many as 48 per cent of these face a shortfall at repayment day of around £71,000 and 260,000 of these borrowers have no repayment plan in place.

The recent innovation in the market, particularly around allowing overpayments and servicing of interest on these new products means that the gap between traditional and lifetime mortgages has narrowed significantly, giving people in this situation many more options to consider.

Three major lenders to enter Equity Release market

Equity Release Council chairman Nigel Waterson is predicting at least three high-street lenders to enter the sector within the next 18 months, which experts say could triple the market's value.

Santander announced last month that it is eyeing a move into the equity release sector, while earlier this year Legal & General confirmed it was also considering a launch into the sector. Waterson says he has spoken to a few large mortgage lenders about entering the market, although he did not say which firms.

We welcome any new providers to the sector and there certainly seems to be a growing interest in terms of mainstream lenders discussing options with us.

"Mainstream lenders have tightened criteria for older borrowers and that makes equity release look more attractive – partly thanks to MMR. I would expect at least three major banks entering the sector over the next 12-18 months, possibly more."Total equity release lending reached £1.07bn in 2013, a 16 per cent rise on 2012's total of £955m.

The pensions reforms this year have also left a lot of older borrowers confused and when they get advice, they are being made aware of the equity release option - all of that leads to increased demand which will naturally attract more lenders into the sector.

Three major banks entering the equity release sector as we know it, with the current level of demand, could triple the market within three years and who knows from there.

Refer your clients to me...

The local equity release specialist

For any retirement lending enquiries, contact your local equity release specialist

Peter Maxwell-Lyte DipFA
Peter@maxlyte.co.uk
0207 993 2882 / 07710 065700

- **Fully independent specialist**
- **Member of Equity Release Council**
- **Access to exclusive products**
- **Welcome to join me in meetings**

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EQUITY RELEASE AND INHERITANCE TAX

In this article we look at what needs to be considered when valuing jointly owned assets that are subject to an equity release loan, for inheritance tax purposes.

Equity Release and Property Value for Inheritance Tax (IHT).
Two or more people can own property jointly; either as joint tenants or tenants in common. On the death of a joint tenant, ownership of their share in the property passes by survivorship to the surviving joint tenant(s). On the death of a tenant in common, their share in the property passes in accordance with their will or the rules of intestacy
It is possible to arrange equity release loans on either category of joint homeowner.
Where a share in the home passes on death to a surviving spouse or civil partner (either by survivorship or otherwise) that is generally an exempt transfer, and the value transferred is not relevant for inheritance tax (IHT).

Where the transfer is not exempt (where for example the share passes to children or to a long-term partner) then the value transferred is important, as IHT may be payable.

What is the value transferred?
In general, the value of any item for IHT purposes is the price which the property might reasonably be expected to fetch if sold in the open market at that time. This "open market price" will be reduced by the existence of another joint owner.
However, this reduction will not be allowed where the joint owners are husband and wife. This is because of the related property provisions in the IHT Act 1984, which treat the property of a married couple (or couple in a civil partnership) as a single unit rather than two separate items.

For example:
Mr A & Ms B own their home as tenants in common. Each has a 50% interest in the property, which has a total value of £300,000. Mr A dies, and his share of the property passes to his son. The value transferred for IHT purposes is £150,000 less a "discount" of between 5% and 15%, because HMRC accepts that the open market value of the half share is less than half of the total value of the property.
In their guidance on completing the IHT account, the Revenue states that in these circumstances the value transferred should be shown as 10% less than the "straight" proportionate value of the share, although the final value is still subject to their agreement.
Thus, the value entered on the IHT account is £(300,000 x 50% x 90%) = £135,000.Had Mr A and Ms B been married, no discount would be allowed.

What if there is an equity release loan?
If Mr A & Ms B had taken an equity release loan, that would produce a debt against the value of the property. The loan would be repayable on Ms B's death, and that would reduce the value transferred to the son (because the open market value of Mr A's share would be reduced).
The value transferred would have to be agreed between Mr A's executors and the Revenue. The starting point would be the £135,000 above, less half of the equity release loan outstanding at the time of the transfer. However, an adjustment would be needed to take account of the future interest accumulating under the loan.
Of course, Mr A's & Ms B's estates are only reduced if the amount borrowed is no longer part of their estates i.e. if it has been spent or given away.

Next steps
Where assets are held jointly, it is becoming increasingly common for the relationship between those owners to be other than husband and wife (registered civil partners). Additionally, the use of equity release is a common method of obtaining access to capital from an otherwise illiquid asset. In these circumstances, care needs to be taken when valuing those assets as part of providing advice on inheritance tax planning.

The information contained in this article has not been approved for use with customers and is based on our interpretation of current law and legislation, and our understanding of HM Revenue & Customs (HMRC) practice as at 30 April 2014. It is provided for general information purposes only and should not be relied upon in place of legal or other professional advice. Both the law and HMRC practice will change from time to time and our interpretation may be subject to challenge by HMRC or other regulatory body. You should always seek appropriate legal or other professional advice.

SOLICITORS WARNING TO EQUITY RELEASE ADVISERS

The Equity Release Solicitors' Alliance has warned intermediaries new to equity release to learn about the legal requirements of brokering such deals.

The equity release sector has had 10,000 new customers in 2014, with £641.2m of plans being written being in the first half of 2014, a 34% increase compared to 2013.

Under legal requirements introduced by the Equity release Council in January, solicitors must arrange face to face meetings with customers during the advice process, while customers must sign the solicitor's certificate.

Claire Barker, chairman of ERSA, said: "Eight months into the year, we believe that advisers and solicitors are getting used to the new requirements but we are concerned that as the market expands rapidly, and new advisers may be entering the market for the first time in a while or at all, that all advisers are reminded about them.

"The requirement for customers to not only meet with a solicitor but also sign the solicitor's certificate adds an extra layer of safeguarding and should reduce potential disputes at redemption."

Barker added that the ERSA expects the market to continue growing in the second half of 2014.
She said: "All of the stimuli are there – lower retirement income for many from traditional sources, mortgages and other debts extending into traditional retirement years and cost of living pressures.
"In addition, homeowners are increasingly aware of their choices and the flexibility and positive options offered by equity release.

"ERSA's belief is that all homeowners should take specialist independent financial and legal advice before proceeding and also select a provider who is a member of the Equity Release Council.
"They can then be confident that they have found the right solution for their individual, particular circumstances."

The Alliance was formed to promote the importance of specialist legal advice within Equity Release. Each ERSA member has committed to a Charter which guarantees best legal advice to consumers undertaking Equity Release transactions.
Equity Release has been a misunderstood retirement solution for some years. There are relatively few solicitors within England and Wales that have acquired the necessary knowledge and practical expertise to deal with Equity Release in a truly impartial and authoritative way.

DEFUSING THE TIMEBOMB

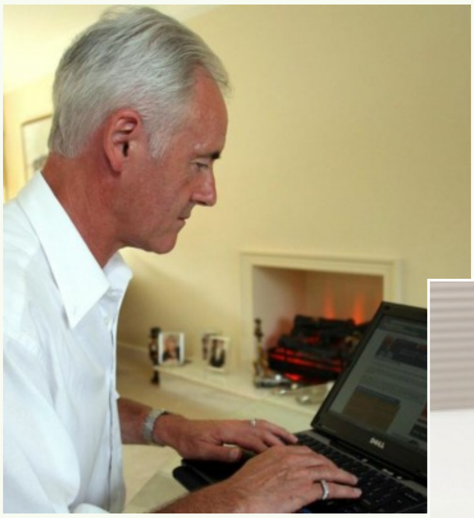
Lenders need to act urgently with products to help interest-only customers without a payment vehicle
There is a lot of talk at the moment about whether mainstream mortgage lenders are doing enough to help customers who are approaching the end of their interest-only mortgage term and do not have a sufficient repayment vehicle in place.
Last year the FCA shed some light on the number of homeowners likely to be affected by this over the coming years. It is estimated that more than 2.5 million interest-only mortgages are due for repayment by 2041 and up to 48 per cent of these face a shortfall at repayment day of around £71,000. Frighteningly, up to 260,000 of these borrowers have no repayment plan in place.
Reflecting this revelation, research from Saga Personal Finance showed that more than 900,000 people in their 70s still have an average mortgage bill of about £38,000, which means that the over-70s market is saddled with a total mortgage debt of around £35.2bn.
Traditionally, mainstream providers have restricted their lending criteria to homeowners in or approaching retirement, which means that those with a repayment shortfall are left with fewer options and could even face the potential threat of repossession.
In recent months, many lenders have started to recognise this problem and they are now talking about their next step, with Santander announcing it is considering offering an interest-paying lifetime mortgage in 2015.

The equity release provider Stonehaven commented that they've seen significant growth in the number of people using their products to clear existing mortgage debt. Between July and September last year, one in two people used some or all of the capital they released from their home for this purpose alone.
Lifetime mortgages are a sensible solution for many in this position as they offer a way to clear residual mortgage debt without people having to move out of the home they are happy in. The borrower will not face the threat of repossession if they miss any interest payments and, thanks to safeguards put in place by the Equity Release Council, they will never owe more than the value of their home.
The flexibility of lifetime mortgage products now available on the market allows the borrower to tailor a mortgage to suit their specific needs. They can choose whether to make interest payments, which stops the loan from increasing in size, or they can opt for interest roll-up. They can also choose to protect a percentage of the value of their property to ringfence any inheritance for their loved ones.
Flexibility is key in helping customers find a product that best suits their needs and any new entrants to the market will need to make sure they offer this.
As the interest-only mortgage timebomb continues to tick, more lenders urgently need to start putting a solution to this problem in place.

RISE OF THE INTERNET AGE PENSIONERS

IT SEEMS THE DAYS OF GRANNY STRUGGLING TO SEND A TEXT MESSAGE ARE LONG GONE

A survey has revealed that Britain is actually a nation of IAPs – Internet Age Pensioners – who think nothing of talking to friends on Skype, watching YouTube or uploading pictures on Facebook.
The study of 600 over-60s by retirement property developer McCarthy & Stone found that more than half of pensioners are comfortable with downloading apps, while nearly one in ten silver surfers are using dating sites.
They are also happy to back up their PC with security software and think nothing of syncing their iPhones, or uploading pictures on Facebook.
Half of those polled own tablets and 47 per cent have smartphones. Three-quarters own a laptop and 61 per cent a PC.
And 96 per cent said they are far more savvy with technology than five years ago – with 88 per cent describing themselves as fairly competent.
Bank books are also a thing of the past, as more than three-quarters (78 per cent) use the internet to do their banking online.
Some 72 per cent read their daily news online and 88 per cent used the internet to research deals and utility quotes or days out.
Other activities tackled online include buying clothes, find recipes, watching catch-up TV and bidding on auction sites.
Ali Crossley, Executive Director of McCarthy & Stone, said: 'There is a perception retirees are less in touch when it comes to technology, but that really isn't the case anymore.
'Many of the over 60s worked in careers which involved being savvy and up to date with the latest technology.
'You have to keep up with modern modes of communication if you want to keep in touch with the younger generation - many of the respondents use social networking sites to keep tabs on their children and grandchildren.
'The image of Granny struggling to send a text is really a thing of the past, with millions of pensioners logging on to Facebook and Twitter accounts every day.'



Rise of the IAPs: Older people are no longer struggling to keep up on the internet, a poll has shown

HOW THE OVER 60'S ARE USING THE INTERNET

- Research deals/utility quotes - 88%
- Research days out - 82%
- Booked a holiday - 81%
- Online banking - 78%
- Buy clothes - 75%
- Read online newspapers - 72%
- Get recipes - 72%
- Watch catch-up TV - 69%
- Bid on auction sites - 61%
- Book flights - 61%
- Research cars - 61%
- Look for properties - 60%
- Book train tickets - 57%
- Instant messaging - 54%
- Grocery shopping - 47%
- Order a repeat prescription - 33%
- Booked a hire car - 32%
- Booked an appointment - 30%
- Online dating - 8%

EQUITY RELEASE FACTS & FIGURES

USES OF EQUITY RELEASE

Home and/or garden improvement (66% up from 55%) retains the top spot, followed by holidays (35% up from 32%), closely followed by repaying non-mortgage debt (30%). Almost 1 in 4 (23%) utilised the funds released in whole or part to help their family, typically their children, and/or grandchildren.

ANALYSIS

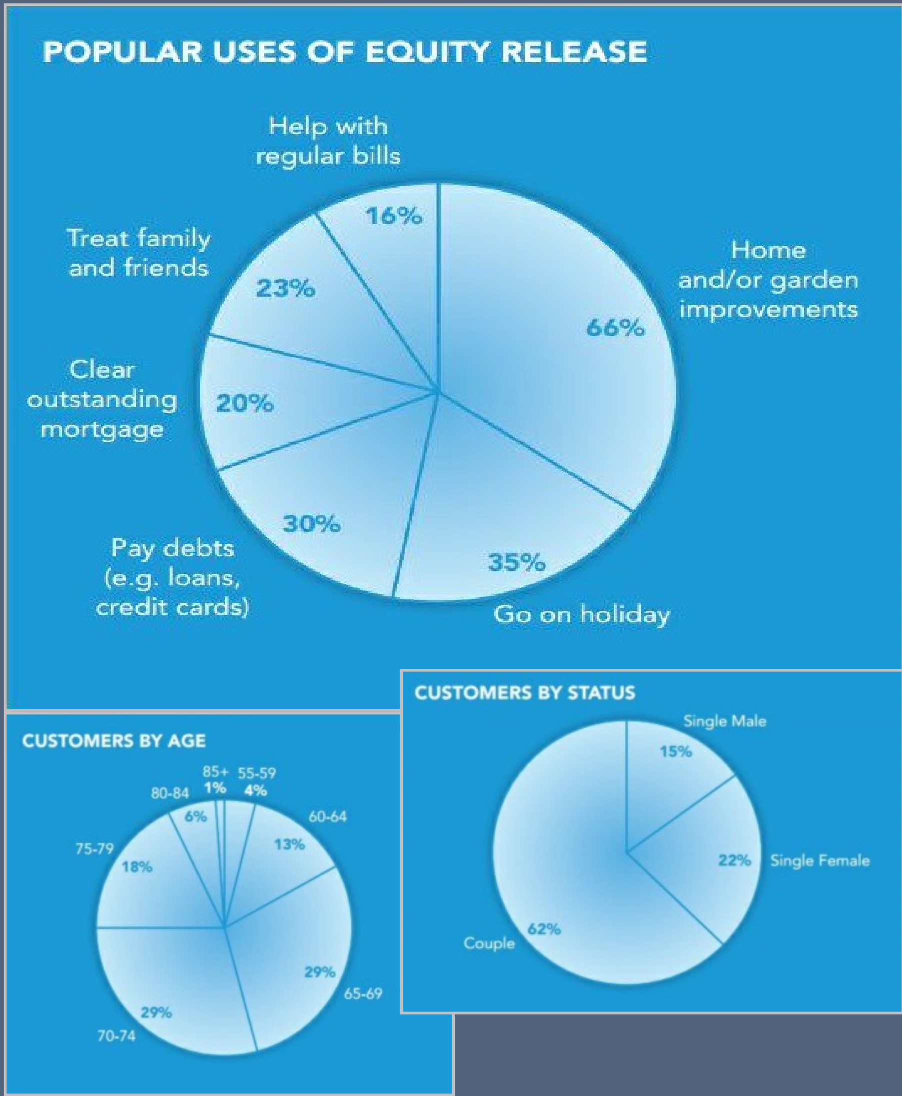
- Average age now 69
- 62% equity release clients are couples
- 47% more single women using equity release than single men

HELPING FAMILY OR FRIENDS

Almost 1 in 4 continues to prioritise helping their family as a main motivation for releasing equity. This will typically form a varied number of uses where they can make material impact on their families' finances.

Popular reasons for helping are:

- Deposit for a new home
- University fees for grandchildren
- Debt repayment
- Holidays



Referral Service

- Expert independent advice on your clients' options.
- Free, no obligation initial consultation
- Home visits with family encouraged to be present
- A professional report detailing my advice.

My promise to Introducers

- I will never cross sell products without your prior consent
- Client contact within 1 business day
- You are welcome to attend meetings if you wish
- Regular updates on the progress of your referral
- I will ALWAYS your refer client back to you for conveyancing or other areas of advice

To refer an enquiry or for more information please don't hesitate to get in touch...

Peter Maxwell-Lyte DipFA

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To understand the features and risks of an equity release plan, ask for a personalised illustration.

The guidance contained in this newsletter is subject to the UK regulatory regime and is therefore restricted to consumers based in the UK.

t: 020 7993 2882 | m: 07710 065 700 | e: peter@maxlyte.co.uk

Peter Maxwell-Lyte. DipFA. Life Planning Financial Adviser.

Member of the Equity Release Council. Maxlyte Financial Limited. FCA Number: 575505

Registered in England No: 05611294. Registered Office 25 High Street Rickmansworth WD3 1ET