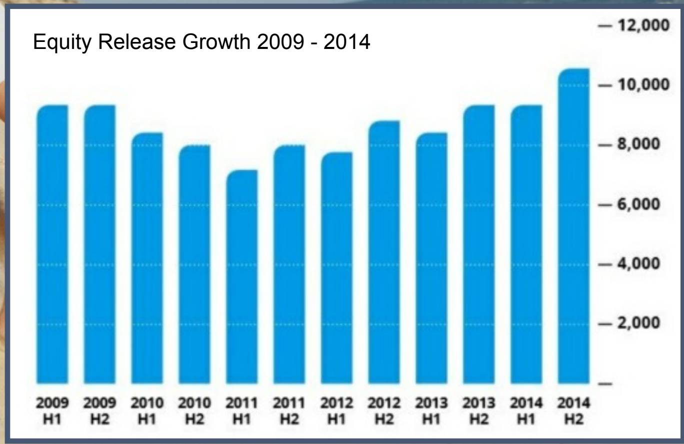
Lending in Retirement NEWSLETTER

July 2015



Equity Release popularity reaches all time high

Increasingly people over the age of 55 are discovering the financial freedom that equity release can bring them. Legal and General have issued a 'Last-Time Buyer' report which confirmed that the over 55's currently control £820 Billion of UK property wealth. That's 11.4 million, however due to a lack of unsuitable housing rather than downsize 25% have stayed in their homes. Equity release is also proving to be an even more popular way of turning housing wealth into actual tax-free cash which relieves some of the financial challenges that people have on a lower income in retirement.

The latest figures from the Equity Release Council show a record-breaking number of homeowners are choosing equity release as a way of providing an extra financial boost during retirement. Over 21,000 people took out a new equity release plan last year, this is the highest level since 2008.

Annual equity release lending reached £1.38bn in 2014, which is a 29% rise on 2013 figures.

At Maxlyte we believe it's essential to select a plan that's been approved by the Equity Release Council. The reason being the guarantee that the owners can remain in their home until either they have both died or gone into long term care.

The most popular uses of equity release remain home and garden improvements, holidays and consolidation of mortgages and other debts. Passing down money to children and grandchildren to get a foot on the housing ladder is increasingly popular. However equity release will reduce the value on an estate. It may also affect someone's entitlement to state benefits. Maxlyte always discuss these issues with clients. But maybe it's more pleasing to present a gift with a warm hand than a cold one.

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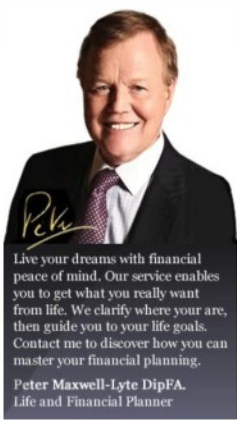

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EQUITY RELEASE COUNCIL Incorporating SHIP Standards

Challenging the Myths -
"Equity Release is expensive"

It's long been a common criticism levelled at the equity release sector that the cost of borrowing is out of disproportionate with other forms of borrowing available to the over 55's.

Here we take a fresh look at this topic and examine whether this criticism is justified. The table below was compiled based on a full year average of borrowing costs across a range of lending products in 2014.

As can be seen from the table, over this period the average best buy lifetime mortgage offered an interest rate of 5.89%. At the time of print, the current best buy lifetime fixed rate on a lifetime mortgage is 5.05%.

When comparing interest rates it's important to consider that equity release products offer a number of additional benefits over traditional mortgages.

How the borrowing options for over-55s compare

Product	Average rate*	Protection against negative equity	Guaranteed right to tenure	Availability beyond the age of 55	Fixed repayment date	Fixed or variable rates
Overdrafts	19.66%	n/a	n/a	Y	N	Variable
Credit cards	17.83%	n/a	n/a	Limited	N	Variable
Personal loans (£5k)	9.18%	n/a	n/a	Limited	Y	Fixed or variable
Equity release (average)	6.49%	Y	Y	Y	N	Fixed indefinitely
Equity release (best buy)	5.89%	Y	Y	Y	N	Fixed indefinitely
Personal loans (£10k)	4.79%	n/a	n/a	Limited	Y	Fixed or variable
SVR mortgages	4.48%	N	N	Limited	Y	Variable
10 year fixed rate mortgages (75% LTV)	3.93%	N	N	Limited	Y	Fixed for ten years
5 year fixed rate mortgages (75% LTV)	3.09%	N	N	Limited	Y	Fixed for five years
2 year fixed rate mortgages (75% LTV)	2.01%	N	N	Limited	Y	Fixed for two years

Source: *Bank of England, Moneyfacts, January 2015*

Using the above example, whilst the equity release mortgage interest rate is higher than for example, a 10 year fixed rate mortgage, there are a number of crucial factors that need to be taken into account. First and foremost, in the vast majority of cases, lifetime mortgages offer a fixed interest rate for the entire lifetime of the borrower(s). This means that a 55 year old client taking out a lifetime mortgage of 5.89% may benefit from this interest rate for over 40 years.

Lifetime mortgages have also come a long way in terms of product innovation making them more attractive to borrowers. The most important recent addition to these products is the ability to service interest and capital. The above product offering a 5.89% interest rate is not only fixed for life, but also allows payments of interest and the ability to repay up to 10% of the capital borrowed each year. This feature is now common place with many best buy lifetime mortgages, which completely negates the argument that these products are more expensive due to the nature of compounding interest.

In terns of the cost of arranging a lifetime mortgage, if we use the above lifetime mortgage featured, which is still available albeit at a lower interest rate of 5.45% (at the time of print), this product offers a free valuation for purchases and re-mortgages and a total arrangement fee of £600 which is payable on completion. Of course, lifetime mortgages can vary in cost however several products have no set up costs whatsoever.

The other cost which would be borne by an equity release applicant is for the services of a solicitor to oversee the transaction on their behalf. Typically, equity release specialist solicitors charge around £400 plus VAT and disbursements for this service.

There are some other crucial factors to consider when comparing lifetime mortgages to traditional mortgages and other types of borrowing. Any equity release product which has been approved by the Equity Release Council offers a number of important guarantees. These include guaranteed tenure in your home for life. That means that unlike traditional mortgages, your home cannot be repossessed due to inability to service any mortgage repayments. Applicants must also choose their own solicitor to act on their behalf, to guide them through the application process and most importantly, to explain the full terms of the equity release plan to the applicant before they proceed to completion. These products also guarantee that where a borrower opts to let the interest "roll up", they can never owe more than the property value at any time. If a borrower wishes to move home in the future, they must be permitted to, subject of course to the new property being mortgageable.

One thing is certain, the cost of equity release borrowing is the lowest it has ever been. Thanks to competitive interest rates, lower costs, much product innovation and the safeguards offered to borrowers, it is no surprise that equity release is currently more popular than it has ever been.

CONSUMERS WARNED ABOUT "FREE PENSION REVIEWS"

Consumers are being warned to be wary of agreeing to a 'free pension review' that could seriously jeopardise their retirement savings.
The Financial Conduct Authority (FCA) has urged pension savers to be mindful that unregulated companies are cold-calling consumers to offer high-risk investment advice.

They are also sending emails, text messages and using online advertising.
The aim of the 'review' is to encourage you to move money from an existing personal or occupational pension to a self-invested personal pension (SIPP) or a small self-administered scheme (SSAS).
The money is then typically invested in investments not regulated by the FCA, such as overseas property developments, forestry or storage units known as store pods.

Such investments can be enormously risky and can be difficult to sell and consumers could lose all the money they move, reducing what they have to live on in retirement.

They also have less protection should anything go wrong and may not be able to complain to the Financial Ombudsman Service. The majority of companies offering the reviews are not authorised by the FCA, although some falsely claim they are acting on its behalf. Others claim to be working with the government following the recent Budget commitment to introduce a free advice service for people at retirement.

However, no such service has been launched, so these claims are highly unlikely to be true. Tracey McDermott, director of enforcement and financial crime at the FCA, said: "People should be very wary if they are contacted out of the blue by someone offering a 'free pension review'. Most of the companies offering this 'service' are not authorised by us, and we're concerned that the reviews often end with pension pots placed in higher-risk, unregulated investments.
"If you see or receive offers of 'free pension reviews', just ignore them. If you are called out of the blue to discuss your pension, just hang up. Your pension is far too important to be put in the hands of a cold-caller."

Remember that authorised financial advisers offering impartial advice are very unlikely to cold call customers – especially to offer their services for free.

THE INTEREST ONLY "TIME-BOMB"

In a recent review carried out by the Financial Conduct Authority, it was found that approximately 150,000 interest only mortgages will mature every year until the year 2020. They estimate around 60,000 of these mortgages will lack adequate repayment vehicles and will therefore be in shortfall.

The interest-only time-bomb has been made all the more devastating by the affordability criteria introduced by lenders as a consequence of the Mortgage Market Review.
Fewer older homeowners have the opportunity to re-mortgage to set up a new strategy to clear their debt. That leaves swathes of homeowners with no obvious way to clear their interest-only debt whilst still remaining in their home. In the worst cases, retirees are being forced to sell-up and move to a smaller home to pay down their debt - a stressful and emotionally turbulent outcome which often causes unnecessary upset in later life.

No Cross Sales Guarantee

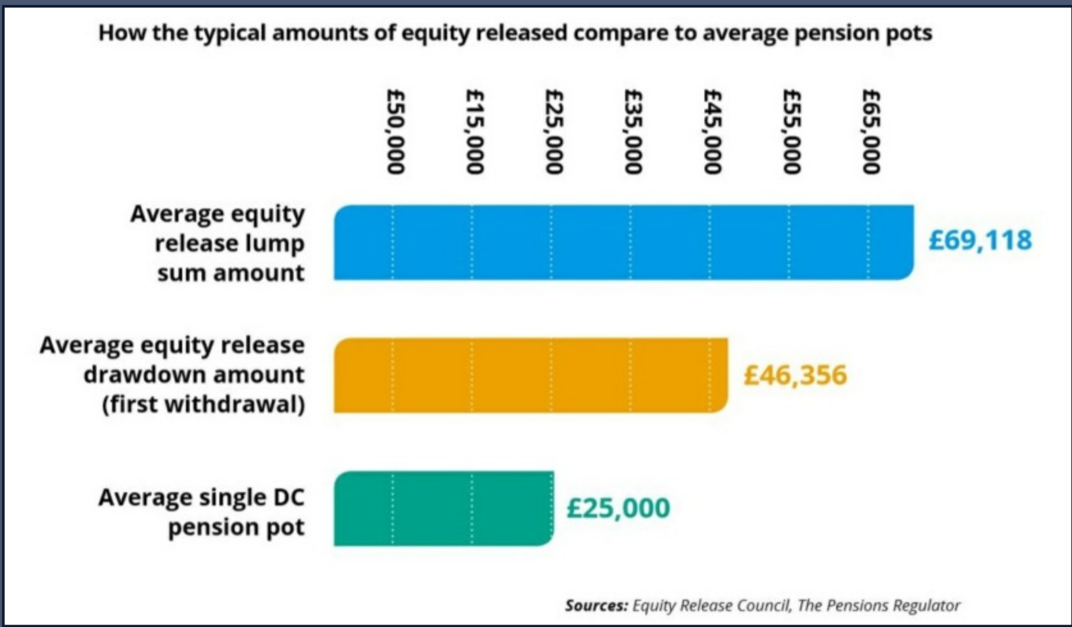
We feel it is important that our introducers can be certain that we won't "cross sell" other financial products outside of retirement lending.

Where we discover a need for financial advice outside of what the client was referred to us for, we will always contact you as the Introducer for instructions on how to proceed.

We can either refer the client back to you for advice or if instructed by you, arrange for a relevant specialist to advise them.

Equity Release drawdowns are 85% larger than the typical DC pension pot

Equity Release plans offer borrowers the choice of how they wish to release capital. Borrowers can elect to release a single lump sum or release capital in stages as they need it by utilising a "Drawdown Plan". Drawdown plans offer the distinct advantage that a cash reserve is set aside for when capital is actually required and as interest is only charged on funds that have been drawn down, there is a huge benefit in terms of cost. Below we compare the average amount released as a single lump sum and the first withdrawal on a drawdown plan to the average Defined Contribution (DC) pension pot.



As can be seen above, in both cases of lump sum withdrawals and initial withdrawals from drawdown plans, the average amount of equity released is significantly more than the average single DC pension pot of £25,000, according to 2013/14 data from The Pensions Regulator. The average initial drawdown last year was worth 85% more than this amount, while the average lump sum plan was worth 176% more, highlighting the importance of housing wealth as a source of funding in later life.

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

- 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 refer client back to you for other areas of financial advice

MaxLyte Financial

EQUITY RELEASE COUNCIL
Incorporating SHIP Standards

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

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