

TWO ROUTES TO EQUITY RELEASE

A single male aged 70 raising £40,000 from a property valued at £200,000

Property Value Changes	Property Value	Lifetime mortgage (6.25%)		Home Reversion	
		Amount Owed	Equity Remaining	Amount Owed	Equity Remaining
10 YEARS	+2%	£243,799	£48,760	£195,039	£97,520
	0%	£200,000	£48,760	£151,240	£80,000
	-2%	£163,415	£48,760	£114,655	£65,366
20 YEARS	+2%	£297,189	£59,438	£237,751	£118,876
	0%	£200,000	£59,438	£140,562	£80,000
	-2%	£133,522	£59,438	£74,084	£53,409

SOURCE: Key retirement solutions



The home reversion plan moves into spotlight

Lesser known form of equity release set for boost as it comes under FSA's remit

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EQUITY release - designed for elderly people who are "asset rich but cash poor" - has received its fair share of bad press over the years.

There have been horror stories of people ending up in a situation where the provider of the equity release deal ends up making a fortune from the customer's property as a result of a shared appreciation mortgage taken out in the 1990s with the borrower left with nothing to pass on as an inheritance.

But there are now plenty of safeguards to protect people opting for equity release.

There are two parts to the equity release market. With a home reversion plan you sell all or part of your home in return for a cash lump sum, a regular income, or both. The home, or part of it, belongs to the plan provider, but you are allowed to carry on living in it until you die or choose to move out.

The alternative is a lifetime mortgage, where you borrow money secured against your home and the property still belongs to you.

From 6 April the Financial Services Authority will regulate home reversion plans - as it has done with lifetime mortgages for the past few years. This is to create a level playing field in the market and offer as much protection as possible.

David Borrowman, managing partner at Caesar & Howie, a firm of solicitors, said: "Home reversion plans are currently only a very small part of the equity release market, maybe around 5 per cent. Their regulation will definitely give them a boost.

"There are a number of rea-

sons why they are not any less attractive than lifetime mortgages. One of the big advantages of a home reversion is the person knows where they stand as they have sold a certain amount of their estate and that isn't going to change. Unlike a lifetime mortgage it's not a loan on the house.

"But home reversion plans are less easy for someone to understand than a mortgage and the legal side can be complicated."

It is important to seek expert advice if you are considering equity release to avoid pitfalls.

Dean Mirfin, business development director at Key Retirement Solutions, a specialist IEA, said: "One of the big changes from 6 April is the FSA will stipulate how advisers describe themselves. Advisers can choose to advise on either lifetime mortgages or home reversion plans rather than both if they wish. If they do so, they must specify which area they can cover and can't simply say they advise on 'equity release'."

If you see an adviser only allowed to advise on home reversion, for example, they will not be able to discuss lifetime mortgages with you even if they are a better option in your individual circumstances. They should refer you to an adviser who can cover this area, but some may be tempted not to, so they can hold on to a potential client.

A new equity release exam is being introduced for advisers, which they have two years from 6 April to pass.