

## Private Client Enews – 16 August 2006

### An Equitable Iniquity?

Interest in equity release schemes is growing, as householders look to realise part of the value of their homes to enhance their retirement income.

Schemes are of two types:

- “Lifetime” mortgages, under which the home is mortgaged to release a lump sum (or to provide a drawdown facility), but no interest is payable on the loan until it is repaid on death or moving house. These schemes are by far the most common.
- “Home reversion” schemes, under which a part or whole interest in the house is sold for a lump sum but the householder is granted a lifetime rentfree tenancy.

There are snags to both schemes, and best advice is to regard equity release **as a last resort**, to be considered **only** when the alternatives, such as trading down to a less expensive property, have been ruled out.

The main snag with lifetime mortgages is that the accumulation of interest over a long period of time could consume the value of the house – though lenders now provide ‘no negative equity’ guarantees against the debt exceeding the capital value. With reversion schemes, the value received is heavily discounted to reflect the absence of rent and the fact that the lender may have to wait for years before being able to on-sell the property.

In both cases, the borrower may be gambling on life expectancy; and in both cases the ability to move house in the future will at best be complicated. Nevertheless, for some people equity release will be the best way of meeting their needs, whether these be to increase income, to undertake home improvements, or to fund other major expenditures such as the purchase of a car or a special holiday.

For the more affluent, equity release can also be used as a method of Inheritance Tax planning. In a typical scheme the value of the estate is reduced by the sale or loan and part of the proceeds are used to fund a whole-of-life insurance policy written in trust for beneficiaries, the proceeds of which will be tax-free. More complicated schemes are available using offshore bonds, but these may attract the attention of the Revenue.

If you have any queries you can phone or email Glenn Smyth or Rod Smith on [glennsmyth@boltburdon.co.uk](mailto:glennsmyth@boltburdon.co.uk) or [rodsmith@boltburdon.co.uk](mailto:rodsmith@boltburdon.co.uk) or phone 020 7288 4700. Our full range of services includes Financial Planning, Trusts Wills & Probate, Property, Matrimonial and Family Law, Commercial Law, Commercial Dispute Resolution, Debt Collection, Compensation Claim Litigation. Visit our web site at [www.boltburdon.co.uk](http://www.boltburdon.co.uk) To stop receiving this bulletin, reply stating 'unsubscribe'.