

Countering **misconceptions**

Dispelling the myths about equity release

When speaking to clients about equity release, you may find that you'll need to tackle a number of misconceptions about the product. These misunderstandings largely arose as a result of the bad publicity attracted by the products available during the 1980s and '90s. However, equity release is very different today.

To make the most of the business opportunity that equity release could offer you, it's worth thinking in advance about the most common misunderstandings associated with the product and how, where appropriate, you can reassure your clients and prospects that they need not be an issue.

Here are some common misconceptions associated with lifetime mortgages, the most common form of equity release:

I won't own my home any more and I might lose it.

You can reassure your clients that they'll still own their home when taking out a lifetime mortgage. They can continue to live in their home until they die, or until they go into long-term care, subject to their provider's terms and conditions.

I don't want another mortgage now. I can't afford repayments.

Unlike a standard residential mortgage, most lifetime mortgage plans don't require the client to make monthly repayments. In fact repayments aren't normally required until the client dies or goes into long-term care, when the loan and the interest built up on it are repaid in full, usually from the sale of the home.

I don't understand how it works. It sounds complicated and I might get it wrong.

Your clients don't need to worry. Equity release is only available as an advised product, so their adviser, and the solicitor they'll need to appoint, will be on hand to guide them through every step. You can also reassure your clients that all equity release providers must be authorised by the Financial Conduct Authority, and many are members of the Equity Release Council.

I don't want my children to inherit a debt.

This can be a big worry, but you can explain to your client that most lifetime mortgage products come with a No Negative Equity Guarantee. This means that your client, or their estate, will never have to pay back more than the property is sold for, as long as it is sold for the best price reasonably obtainable.

I won't be able to leave anything to my children or grandchildren.

It's true that taking a lifetime mortgage will reduce the amount of inheritance your client can leave. But some providers, including Aviva, offer an inheritance protection guarantee. This allows your client to safeguard a percentage of the value of their home for inheritance purposes, although this will reduce the amount they can borrow. It's a good idea for your client to involve potential beneficiaries in discussions and adviser meetings when considering equity release.

What if my circumstances change? I don't want to get saddled with early repayment charges.

Early repayment charges can indeed be expensive, but in some circumstances they won't apply. Options such as voluntary partial repayment have greatly enhanced the flexibility of equity release products.

I'm worried that taking out a lifetime mortgage would affect my benefits.

This can be an issue, and although you can reassure your client that their State Pension and Disability benefits wouldn't be affected, other means-tested benefits may be. Further advice is available from HM Revenue and Customs, the Benefits Agency, Local Authority, or another source of advice such as Citizens Advice Bureau. Clients also need to understand that even though the amount released isn't taxable, their tax position may be affected.

I might not want to stay here forever. Wouldn't equity release tie me down to this house?

Portable equity release products are available, so if your client chooses to move in the future they may be able to take the plan with them. This would depend on a number of criteria, including the value of the house they may be moving to.

Some providers, including Aviva, offer downsizing protection. This means that if a client needs to move to a property that doesn't meet the provider's lending criteria, they can repay their loan without having to pay an early repayment charge, subject to the providers terms and conditions.

Won't it cost a fortune?

There's no denying that equity release can be expensive, but going through the costs in a clear, open manner will reassure your clients that there are no 'hidden extras'. However they'll need to understand how the interest on a lifetime mortgage keeps on compounding, and just how substantially the debt can grow – especially over the longer term.

To put costs into perspective, it may be valuable to go through example scenarios to show how varying levels of house price fluctuation over time would affect the equity potentially remaining in the client's home.