Y3S Loans

A Broker's Reference to

Equity Release

What are the main uses of lifetime mortgages?

- Clear an outstanding mortgage
- Pay off unsecured debts
- Top up day to day living
- Make home or garden improvements
- Go on holiday
- Buy a new car or caravan
- Invest in a BTL property
- Gift to family or friends
- Reduce IHT liability by reducing the value of the estate with the charge against the property
- Extend a lease to increase the property value
- Purchase a holiday home abroad
- Tax bill
- Invest in business
- Transfer of equity

How to identify an equity release opportunity

- Customer aged 55+?
- Interest only coming to an end with no alternative to repay?
- Would your customer like to avoid servicing the debt, or does not have the provable means to do so?
- A customer with mounting unsecured debt may benefit from consolidating their credit cards and loans, giving a better quality of life month to month.
- A customer who has had to retire earlier than expected, or whose pension has not performed as well as hoped, may need to top up their funds.
- For customers divorcing, a lifetime mortgage can help the funds from sale of the family home stretch for their onward purchases.
- For a customer in need of in home care, a lifetime mortgage can help to fund the cost of at home care and home improvements to enhance quality of life.

Journey of Equity Release

The first product was launched back in 1965 and has evolved over time. Essentially, this has always been a product to help older customers to release money from their homes. The industry became regulated in 2004 with introduction of MCOB. However, it has been under the guidance of a trade body since 1991. SHIP was launched to help protect those operating in the market of shared appreciation home plans, and as the equity release industry evolved, the trade body was relaunched in 2012 as the Equity Release Council.

Equity Release today

Lifetime mortgages

A lifetime mortgage operates in a very similar way to a 'normal' mortgage. The customers retain ownership of their property, the mortgage is registered as a charge, and there is interest applicable. The interest rolls up, increasing the balance, and although the vast majority of products are based on a fixed rate of interest for the life of the mortgage, the increasing balance does have a compounding effect. There is more flexibility to overpay, service the interest or move home with a lifetime mortgage.

Home reversion

Home reversion represents less than 1% of the Equity Release market, but there are still companies offering this type, and there are of course customers who this would suit. In this scenario, a customer would revert ownership of the property in part or whole to the company providing the money. The customer then becomes a tenant in their home. They still have right of tenure, but tend to find lower returns are offered.

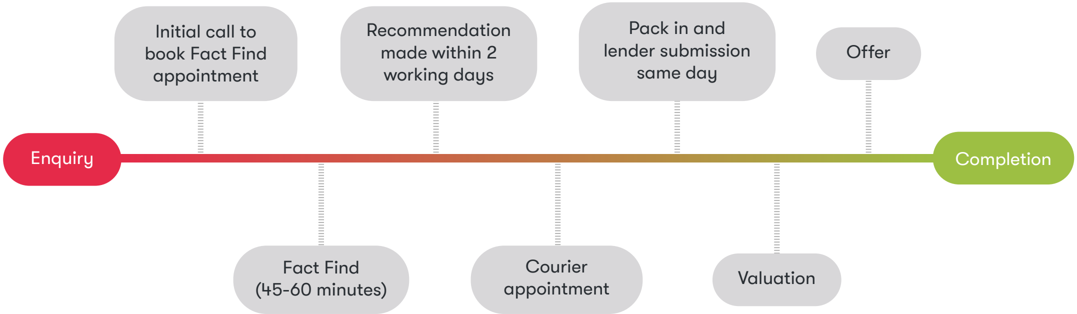
The guide has therefore referred to the application of lifetime mortgages specifically.

How do lifetime mortgages work?

- The lifetime mortgage is the first and only charge on the property.
- Interest serviced products allow the customer to pay between £25 and the full interest applicable amount per month.
- On the roll up plan, the customers can overpay to cover the interest and even reduce the balance.
- No income assessment or affordability
- The mortgage can be ported to another property at any time. The downsizing guarantee kicks in after year 5 meaning that if the new property is not suitable security for the lender, the customers can pay off their mortgage ERC free.
- No negative equity guarantees mean that even if the loan amount with the interest added increases higher than the value of the property, then there would still be no bill left for the beneficiaries when the property is sold at a fair market value.
- Inheritance guarantees allow for a specified percentage of the property value to be earmarked for the beneficiaries.
- No upfront costs such as valuation or legal fees
- We have a panel of equity release specialist lenders who we can recommend to take care of the conveyancing for your customer

Customer journey with Y3S

Once you have identified an equity release enquiry, the process is fairly simple – allowing you to concentrate on your core business.



- You provide Y3S with basic enquiry details (loan amount, age of customers, property value) by telephone or email.

- We will call the customer directly from here, or provide a quotation, and if acceptable to you, we will then contact the customer directly to go through the detailed fact find process over the telephone. Underwriting, sourcing and compliance completed.

- Once the client is happy with the proposal, a mutually convenient time is agreed upon for our document courier to collect signatures, help the customer complete the paperwork and take copies of ID, proof of address etc. This saves time compared to using the post and having to ask our customers to send important documents such as passports or marriage certificates.

- Following receipt of customer's signed documents, the application is submitted and the lender contacts the customer directly to arrange the valuation visit.

- The lender will review the valuation report and issue the offer. The equity release specialist solicitor will contact the customer for their initial call.
- The offer is signed in the presence of the travelling solicitor as per Equity Release Council guidelines.
- Following completion of the loan, the procuration fee is sent to the introducing broker within an average of 24 hours of receipt of the signed handover agreement.

What property types can be used as security for a lifetime mortgage?

Minimum property value: £70,000

Maximum property value: no maximum

Any residential property, freehold or leasehold. Products available for second homes and Buy To Lets as well.

How much can be borrowed?

Minimum loan amount: £10,000

Maximum loan amount: no maximum

LTVs up to 58% (subject to current market conditions)

Early redemption charges

- The products are designed for a customer's lifetime. The term will come to it's natural end when the customer either passes away or moves permanently into long term residential care and the loan is repaid from the proceeds of sale. Of course, the ERC will not apply in this scenario as well as a number of others.
- For a fixed ERC option, the ERC is based on a percentage of the original loan amount and will be in place for 8-15 years, and from 10 -1% of the initial loan amount.
- For a variable ERC option, the ERC is based on the performance of the gilt index from when the plan was taken out. Gilts are a type of government bond, and where some of the lending comes from. The ERC for a variable can be from 0% to 25%.
- The fact find call itself will take up to an hour for an equity release application where I will be looking to gain a thorough understanding of your client's needs and priorities, so that I can make a suitable recommendation. Factors such as an intention to overpay will play a part in the product recommended where applicable.
- Customers can overpay should they wish to do so up to 10%, 12%, 15% and even up to 40% of the initial loan amount in any one year before incurring any ERCs

Equity Release Council Product Standards

- Interest rates must be fixed, or if they are variable, there must be a 'cap' which is fixed for the life of the loan
- You must have the right to remain in your property for life or until you need to move into long-term care, provided the property remains your main residence and you abide by the terms and conditions of your contract
- You have the right to move to another property subject to the new property being acceptable to your product provider
- The product must have a no negative equity guarantee – when your property is sold, and after deducting selling agents and solicitors costs, even if the amount left is not enough to repay the outstanding loan to your provider, neither you nor your estate will be liable to pay any more.

Conclusion

- Age 55+
- LTV (standard) up to 58%
- Home ownership retained
- Roll up or interest serviced
- Can make overpayments
- No income assessment or affordability
- Portable
- No negative equity guarantees
- Inheritance guarantees available
- Downsizing protection
- BTLs up to 44% LTV

Y3S Loans

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