How to build your business with equity release

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Contents

Building your business with equity release

Equity release is becoming more and more popular in later-life planning. With new customers taking out lifetime mortgages, you might be thinking about getting qualified to advise equity release. Or you might already be qualified and looking to better understand the regulatory requirements. Either way, this guide is here to help with useful information and plenty of support.

A growing market

To generate cash, many people are looking to unlock some of the money tied up in their property. So, equity release is a significant opportunity for advisers who want to grow their business.

Getting started

Before deciding if writing equity release business is right for you, it's important to understand it in more detail. The most popular type of equity release is a lifetime mortgage.

A lifetime mortgage: how it works

- Your client takes out a loan secured on their property.
- The loan and interest it accrues must be repaid after your client dies or moves into long-term care, usually by selling the property.
- Your client continues to own their home.

We only sell the lifetime mortgage product. Home reversion plans are also available by other providers but this is not a product we offer.

Becoming qualified and finding support

You'll need to gain the right qualifications to advise on equity release. We'll be with you before and after your exams so you're able to help your clients make the best decisions when planning for retirement.

Becoming an authorised equity release adviser could create a lot of opportunities for you. Adding equity release to the products you advise allows you to offer clients a full financial planning overview.

We're here to support you

Since 1998, we've helped over **284,000 people release more than £11bn** from the equity in their homes, so we know what we're doing. But more importantly, we care about giving you the confidence to build your business.

Our team of specialists are on hand for support and advice as you establish yourself as an equity release adviser. We'll be there every step of the way, so you feel assured and at ease in adding equity release to your portfolio.

You can find our contact details on page 20.

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Creating more business opportunities

Other clients that it may be suitable for could include:

- Have low retirement incomes from pensions and savings products.
- Have personal debts with no other means of repaying them.
- Want a cash lump sum for a specific purpose, such as home improvements or a special holiday.
- Want to give their family some financial help.

Spread the word

Your clients could have family or friends who might benefit from equity release too. Or perhaps you live in an area with a high percentage of retired people. If you know a group of people that could be interested in equity release, why not put on a presentation for them? That way, they can find out more about equity release and what it could mean for them.

Even better, you could rally some fellow professionals, such as accountants and solicitors, who'd also like the extra business that equity release could bring. You can then share the cost of holding the event and pool together your client bases.

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Starting the conversation

We know equity release isn't for everyone – it's a long-term commitment. But if some of your clients want some cash for something specific, it's worth considering. With some clients, it will be appropriate to talk about their needs for extra funds during retirement and equity release could be the answer. It's down to you to present your client with all the options and advise which ones would work best for them.

Be proactive

Some instances may invite more proactive conversations about equity release with your clients. Here are some examples.

Annual review

During a client's annual review, you'll be able to talk through all aspects of their financial circumstances, including:

- Income and outgoings, including benefits.
- Personal debt.
- Current financial burdens.
- Changes in the value of their portfolio.

Each of these topics could prompt a need for equity release so they provide a starting point for a discussion about it.

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Lifestyle changes

The average lifespan is higher than ever, meaning that the opportunity for a longer retirement is possible. Personal circumstances could change significantly during this time. From happier moments, like the birth of grandchildren, to difficult changes like losing loved ones, divorce and health issues, so many things could happen.

Each of these events might cause a shift in financial circumstances and equity release could be a suitable option for them.

What is the Aviva lifetime mortgage?

Our lifetime mortgages offer a long-term loan that is secured on your client's property. With our Lifestyle Flexible Option your client can choose to release a single lump sum or have the option to release a lump sum and set up a cash reserve to borrow additional sums from in the future. The minimum loan is £15,000 with an initial release of £10,000 and a cash reserve of £5,000. Your client won't pay interest on the cash reserve amount until it is released.

We also have a Lifestyle Max lifetime mortgage which typically offers a higher Loan to Value (LTV). The Lifestyle Max only offers a single lump and does not have a cash reserve facility. The minimum loan is £15,000.

Unlike a standard residential mortgage, your client doesn't have to make monthly repayments; instead, interest builds up on the loan each year. Interest is charged on the total borrowing and any interest previously added, which quickly increases the amount owed.

The loan and interest are repaid in full, usually from the sale of the property, when your client(s) dies or need long-term care, as defined by our terms and conditions.

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Who might qualify?

Your client(s) will need to meet the following lending criteria to be eligible for an Aviva lifetime mortgage:

- **Homeowner aged 55 or over** – If your client is married, in a civil partnership, or co-habiting they must both be aged 55 or over. We'll use the age of the youngest borrower to work out the loan amount.
- **Live permanently in their home** – the property must be your client's main residence and they must not leave it unoccupied for more than six months at any one time.
- **Mortgage-free or only have a small mortgage** – the remaining mortgage will need to be paid off as a condition of taking out an Aviva lifetime mortgage. They can do this from the amount borrowed.
- **The property is in the UK (not including the Channel Islands or Isle of Man)** - and worth at least £75,000. The property must meet our **lending criteria**
- **Wants to borrow a minimum of £15,000** – and the value of their property makes this possible.
- **Owns a home that's freehold or leasehold.** For leasehold the sum of years remaining on the lease plus the age of the youngest borrower must equal at least 160.

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How much could your client borrow and what are the interest rates?

We use the following factors to determine the loan amount and interest rate available to your client:

- Age – We'll use the age of the youngest borrower for joint life mortgages.
- Property value
- Property type and location
- Health and lifestyle factors – If your client qualifies for an enhanced lifetime mortgage, they could receive a lower fixed interest rate or a higher loan amount. This only applies to the Lifestyle Flexible Option.

We offer fixed interest rates which are guaranteed for 14 weeks from the date an application is received. If your client sets up a cash reserve facility, the interest rate applied to any cash releases will be the interest rate applicable at the time of borrowing. This could be higher or lower than the interest rate offered when the lifetime mortgage was first taken, and this also applies to any additional borrowing your client may apply for in the future.

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What are the benefits?

- Your client continues to own and live in their home.
- There is a fixed rate of interest throughout the term the mortgage.
- A cash lump sum with access to a cash reserve facility to release smaller cash lump sums from in the future.
- The possibility to apply for additional borrowing, subject to our terms and conditions.
- Our 'no negative equity guarantee' means your client or their estate will never have to pay back more than what their property is sold for, as long as it's sold for the best price reasonably obtainable.
- The Inheritance Guarantee allows your client to secure a percentage of the property value to leave for loved ones. This option must be selected at the start of the lifetime mortgage, and it will decrease the amount which can be borrowed. Inheritance will still be reduced.
- The option to make voluntary partial repayments without incurring an early repayment charge. The maximum which can be repaid each year is 10% of the total amount borrowed excluding any accrued interest and a minimum of £50 at each instalment.
- Your client can apply to transfer their lifetime mortgage to a new property if they decide to move home. If their new home does not meet our lending criteria and they continue to move, they'll need to repay their loan and an early repayment charge may apply. They will need to have held their lifetime mortgage for three years. However, if they'reeligible for Downsizing Protection they could have the option to repay their loan without incurring an early repayment charge.

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Things to consider

- If your client has money in pensions, savings or investments it's worth considering if these are a better way to fund their future plans. There are costs involved in taking out a lifetime mortgage and reviewing alternative options should always be considered first.
- The interest rate applied to any sums of money taken after the initial loan will be the interest rate available at the time of borrowing. This means the interest rate could be higher (or lower) than what your client was offered when they first took out their lifetime mortgage.
- Interest is added annually on the original loan amount and any interest that has previously been added. This method of charging interest is known as compound interest and means the amount owed increases quickly reducing the available equity in the property for additional borrowing.
- The cost of borrowing on a lifetime mortgage may not be a good outcome where alternative borrowing solutions are more suitable and more cost effective.
- The amount of inheritance your client can leave behind will be reduced, possibly to nothing.
- A lifetime mortgage is a lifetime commitment and is designed to be repaid when your client dies or needs long-term care, subject to our terms and conditions. If your client chooses to repay the loan early, a substantial early repayment charge may apply.

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Things to consider

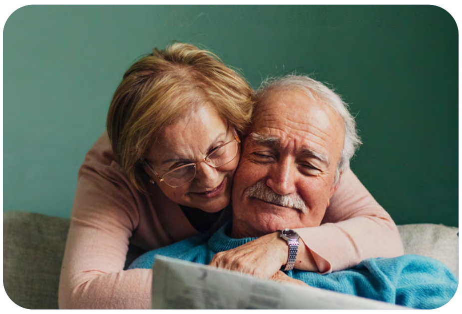
- Releasing equity may affect your clients tax position. It may also affect their eligibility for certain welfare benefits such as council tax benefits, pension credit and certain health benefits.
- The No Negative Equity Guarantee ensures that when the lifetime mortgage is repaid the customer, or their estate will never be asked to pay back more than the amount received from the sale of the property, even if the amount owed is higher. This is providing that it is sold for the best price reasonably obtainable. Borrowing at a high interest rate with a high LTV significantly increases the risk of negative equity during the customers' expected lifetime. Consideration must be given to the customers' future financial resilience and the impact negative equity might have on their financial options and ability to maintain or raise income in later life. Customers who are not financially resilient in later life may have limited options when it comes to moving property, change of circumstances, obtaining additional borrowing and maintaining their property in accordance with terms and conditions. Failure to maintain the property could result in the risk of repossession.
- Making voluntary partial repayments helps to reduce the growth of the outstanding balance over time. When recommending repayments to the customer, consideration must be given to the longer term impacts of negative equity and any voluntary partial repayments that are made are not refundable.

Getting to know your clients

Once you've identified that your client base is suited to equity release, there are some steps you can take to understand them better. As they could be any age from 55 upwards, you have a diverse target audience. For cultural, emotional and financial reasons, many of these people will have different outlooks on life and, of course, different financial needs.

Some customer examples

By looking at your clients' personal and financial situation, you can see if equity release could be right for them. Below are a few examples of clients who could benefit from equity release.



Tony and Debbie

Tony and Debbie are in their late 60s and live in a semi-detached house in the Midlands. It has been their home for the last 30 years. They don't have a mortgage and it's now worth just over £200,000. Tony has a small pension from his employer and they both get a state pension. They are finding it increasingly difficult to live on their income and would like to give their children and grandchildren greater financial support.

Lucas and Steve

Lucas and Steve live in a three-bedroomed detached house in Yorkshire. They don't have any children. They both have a private pension and a state pension, which covers their daily expenditure, but don't have much left over. Steve's brother lives in Australia. The couple want to visit him and his family and then spend some time travelling around the country. They need to free up some cash allow them to do this.

Amara

Amara is a retired head teacher who lives alone in a small Wiltshire village. She dedicated her life to working in the education system and has a generous superannuation pension. In addition, her cottage is now worth over £400,000 and she has no outstanding mortgage. Amara wants to make some home improvements, but has already spent her savings, so needs to find a cash lump sum for the work.

Changing the misconceptions

Some of your clients might not be familiar with equity release so haven't considered it before. Not fully understanding the product could lead to misconceptions. We've set out some common misconceptions below that could apply to the Aviva lifetime mortgage, alongside information you can give to your clients to reassure them.

Misconception – I'm worried about falling into negative equity.

We uphold the no negative equity guarantee outlined by the Equity Release Council. So, if the property is sold for the best price reasonably obtainable, your client will never owe more than the value of their home and no debt will be passed to their estate. This is still true if your clients' home is sold for less than the amount owed when they die or move into long-term care.

Misconception – I won't be able to leave an inheritance.

A lifetime mortgage will always reduce the amount of inheritance your client can leave. However, at application stage your client can choose to leave a percentage of their property value by adding an inheritance guarantee. The guarantee will be a percentage of the sale price when your client dies or goes into long-term care, rather than a specific sum.

If the inheritance guarantee option is selected, your client won't be able to borrow as much from us because the loan amount will be based on the proportion of the property value that's not guaranteed. Inheritance will still be reduced.

Changing the misconceptions

Misconception - It seems really complicated

We produce useful guides to help your client understand how equity release works. You can order these for your clients or access them online. Your clients can also be assured that you will support them through the application process and with the added benefit of obtaining legal advice which is a mandatory requirement.

Misconception - My home could be repossessed

Your client won't have to leave their home until they pass away or move into long-term care as defined in our terms and conditions. If it's a joint policy, this applies to both borrowers. As long as your client complies with the lifetime mortgage terms and conditions, they will never be asked to leave their home.

Your questions answered

Q What happens after I've submitted an application to Aviva?

A First, we'll check that your client and their property meet our lending criteria and we have everything we need to go ahead. Don't worry, we'll be in touch if we're missing anything. Once we're received an acceptable valuation report, we'll prepare the offer documents.

Q How long will the whole process take?

A It varies from client to client as it depends on valuing the property and sorting out the legal documentation. On average the process takes between 8-12 weeks to complete, from us receiving an application to releasing the money to your client. Because of this, we guarantee the interest rate and loan amount for 14 weeks from the date we receive a valid application.

If your client's loan doesn't complete within 14 weeks, we'll contact you to see if they want to continue their application. And if it's a yes, the interest rate on the next working day after the expiry date of the original 14 weeks will be guaranteed for 14 weeks. This could be higher or lower than the initial rate.

Q Can my client borrow more later?

A Your client can apply to borrow more, but we can't guarantee that their application will be accepted. It depends on the value of your client's property at the time, how long they have held their lifetime mortgage, how much they have already borrowed from us and our current lending criteria.

Additional borrowing would be subject to the interest rates at that time.

Q What fees and charges will my client pay?

A There are a variety of fees but here are some of the main ones:

- **Valuation fee** for independent valuation of your client's property depending on their property value.
- **Legal fees** for covering the work of your client's legal adviser.

You can find out the costs for an individual client by getting a personalised key features illustration from us and checking our **Tariff of charges** leaflet.

Q Can my client move home in the future?

A Yes, your client can move and take their lifetime mortgage with them, provided their new home meets our lending criteria at the time. We may ask your client to make a mandatory partial repayment of the original loan and interest if they move to a property worth less than their current home. Your client might be able to borrow more from us if they move to a higher value property, but we can't guarantee this. If the new home does not meet our lending criteria, your client might be eligible for Downsizing Protection which allows your client to repay the lifetime mortgage in full without incurring an early repayment charge. Your client would need to have had the lifetime mortgage for at least three years to be eligible and terms and conditions apply.

Your questions answered

Can my client add someone new onto their existing lifetime mortgage?

If someone else is moving into the property to become a joint owner after the lifetime mortgage was originally taken out, your client will need to inform us as soon as possible. Whether they can add the new person on to their lifetime mortgage depends on how old they were when the lifetime mortgage was first taken out.

If the new person was aged under 55 when the lifetime mortgage was originally taken out, then they can't be added. The lifetime mortgage will need to be repaid in full if they want the new person to become joint owners of the property. If the new person was aged over 55 when the lifetime mortgage was originally taken out, then the property can be transferred into joint names, and we'll add them onto the lifetime mortgage. Your client may be required to repay part of the loan and interest, especially if the new person being added is younger.

Your client will need to appoint a solicitor to carry out their legal work which they'll need to pay for. We will instruct our own legal adviser to act on our behalf and we will pay our own fees.

Can my client remove someone from their existing lifetime mortgage?

Yes, they can. Your client won't need to repay the lifetime mortgage, but we will transfer their home and lifetime mortgage into the name of the remaining borrower. We'll send your client a form to complete, and they'll need to appoint a solicitor to carry out their legal work which they'll need to pay for. We'll instruct our own legal adviser to act on our behalf and we'll pay our own fees.

How will my client know how much they owe?

We'll send your client an annual statement on the anniversary of the date they took out their lifetime mortgage.

If they choose to make voluntary partial repayments, we'll apply them to their lifetime mortgage on the day the money is received. This will reduce how much they owe and the amount on which we charge compound interest will go down. They'll receive a statement from us to show how their lifetime mortgage has changed.

Your client can register for **MyAviva**, where they can view details about their lifetime mortgage online anytime, including how much they owe.

Your questions answered

Q What happens to the lifetime mortgage when your client dies or goes into long-term care?

A The lifetime mortgage is designed to be repaid in full when all borrowers have died or gone into long-term care.

The people dealing with your client's estate will be given a reasonable length of time to repay the loan. This is currently 12 months. It's important to tell your clients that interest will continue to accrue on the outstanding loan amount until its repaid in full.

The lifetime mortgage is normally repaid through the sale of the property but that isn't always necessary if there are other means by which the funds can be raised to repay the loan.

If after 12 months, the people dealing with the estate haven't repaid the loan, they must contact us on **0800 158 4177** to discuss this further.

This is classed as a default, meaning the legal obligations of the loan haven't been met, and we reserve the right to repossess the property to settle the outstanding loan amount.

You can put your trust in us

Why Aviva?

There are many reasons why you can trust us to look after your clients' lifetime mortgage. But in a nutshell, **we've helped over 284,000 people release £11bn from their property since 1998.** Plus, we're regulated by the Financial Conduct Authority.

We're proud to be a member of the Equity Release Council

The Equity Release Council is a voluntary organisation that exists to promote high standards of conduct and advice within this market.

It works hard to improve awareness and understanding of equity release so people can feel confident about their choices.

To protect your clients, the Equity Release Council has a set of Rules and Guidance that its members must follow.

Many potential clients may have heard about the Equity Release Council, so it's worth finding out more about it as an organisation and the protection membership provides.

You can find everything you need on their website:
www.equityreleasecouncil.com

Your client can be sure they'll never leave debt to their family, too, as all Equity Release Council members give their customers a no negative equity guarantee.

Equity Release Council

We're longstanding members of the Equity Release Council, a trade body set up in 1991 to help educate and support people taking out equity release.

Proud to be a Member of the Equity Release Council

Need this in a different format?

Please get in touch if you'd prefer this form **(PF04186)** in large print, braille, as audio, or in a different colour.

0800 015 4909

Lines open 9.00am – 5.30pm Monday to Friday.
Please note we may record your call.

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Equity Release Hub

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