GUIDE TO BORROWING INTO RETIREMENT

JOHN CHARCOL™

INDEPENDENT MORTGAGE EXPERTISE

BORROWING INTO RETIREMENT

Even if you've been financially savvy throughout your life, there are still important decisions you'll have to make in your later years. Naturally, your first thought will run to your pensions and preparing a will, however more and more we're seeing that people are seeking to remortgage or possibly refinance their home.

The need to borrow or refinance in later life can be the result of a number of different needs and requirements. From those with an interest-only mortgage who are unable to pay off the balance at the end of their mortgage term, to those looking to borrow more money to refurbish their property or buy the holiday home they've always dreamed of.

Carefully planning your finances into your later years can help you live a more comfortable lifestyle, well into retirement.

If you've lived in your home for a long enough period of time, it may well have increased in value. You may want to release some of this equity to help you enjoy your retirement or pass it on to a child or grandchild to help them get on the property ladder.

In this guide we'll outline the options, paths and solutions available to you, from remortgaging, to extending your mortgage and releasing the equity you've built up in your home.

CONTENTS:

INTEREST ONLY MORTGAGES

INTEREST ONLY MORTGAGES

It's estimated a large number of people in the UK are on an interest only mortgage deal with no adequate repayment deal. Billed as an easy way into the property market back in the 1990s at their peak, just before the financial crisis, they accounted for one third of all mortgage loans sold with investment vehicles that have either stopped or significantly short of their intended targets.

For lots of borrowers, the hope was that rising house prices over the long term would mean they built up sufficient equity to be able to more than repay the mortgage. Others invested in schemes (such as endowments) which failed to reach targets of return leaving a devastating shortfall.

WHAT CAN I DO IF I CAN'T PAY OFF MY MORTGAGE?

EXTENDING YOUR MORTGAGE TERM

If you're unlikely to pay off your mortgage by the agreed date you should make your lender aware and ask if you can extend the term. Hopefully at the same time they'd allow you to switch all, or some of the loan to a repayment basis and by extending the term of your deal the monthly repayments might be more affordable, so allowing you to pay off the capital.

MOVING LENDER

If your existing lender won't let you take a new product and/or switch to repayment it's possible that you could switch providers to one who will. Many specialist and mainstream lenders now allow some people to borrow into later life and thus allow them to stay in their home. For more information on this skip ahead to 'Borrowing in Retirement' on page 6 and 'Specialist 55+ Mortgages' on page 8.

EQUITY RELEASE

Many people will raise cash to pay off their mortgage using equity release plans. These plans allow the over-55s to borrow against the value of their homes, where the interest is rolled onto the balance. The loan is usually paid back when the property is sold. Equity release isn't for everyone and it's good to consider all your options before going down this path.
For more information on 'Equity Release' skip to page 9.

DOWNSIZING

If your children have flown the nest, you may have considered downsizing. This can be a good way of releasing some of the capital in your home either to help you live a comfortable life or to hand down to a child or grandchild to help them onto the property ladder. Nowadays downsizing is not necessarily about getting a smaller property. Many people look to move out of expensive areas, like London, to elsewhere in the country where they can get more for their money.

OTHER OPTIONS

There are number of other options available to you. From using your saving and investments to asking your children for financial assistance. The most important thing you can do if you're on an interest only mortgage is to act now and plan for the future.

BORROWING IN RETIREMENT

There are options other than downsizing available to you if you want to release cash tied up in your property. You may have the option to mortgage or remortgage in order to borrow more against the value in your property.

Mortgaging, or borrowing more money above your existing mortgage, in your later years can prove more difficult. This is because lenders have to look at your affordability both now and in the future. That means looking at your retirement and pension incomes. For most people their post-retirement income is likely to be significantly less than their pre-retirement earnings. This can present a problem for lenders. Although you may be able to afford a mortgage easily whilst earning, it's likely to become less easy to afford once you retire, or in some cases not affordable at all.

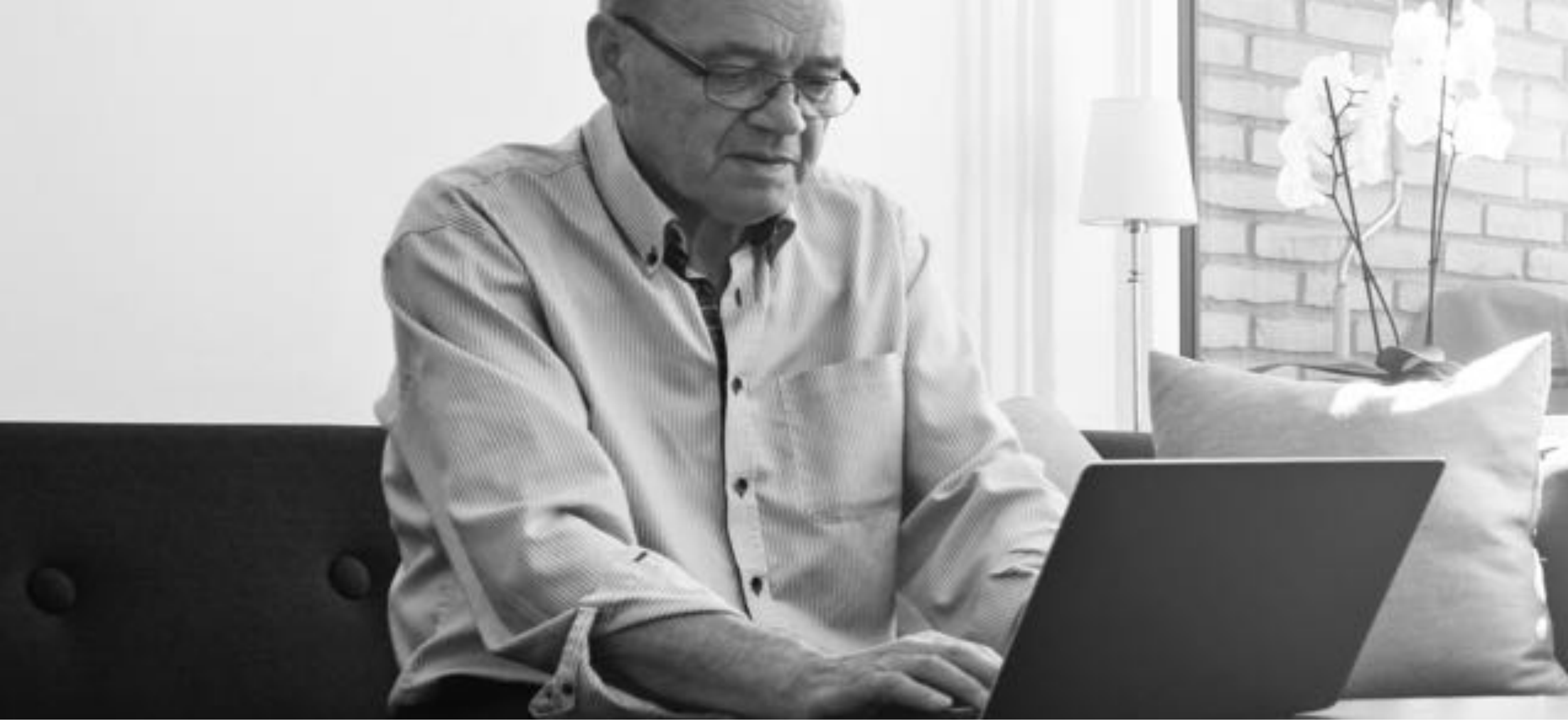
So when thinking about borrowing into retirement you need to consider how much income you will have in retirement, how long you want to borrow the money for, and how you'll ensure you've paid everything off by the end of the term.

As the state retirement age is creeping closer to 70, most lenders will accept that people are likely to be able to continue working until age 70. That means they can base their affordability calculations on earned income until then. However, if you need the term to go beyond age 70 then those same calculations will have to be based on your potential pension/investment income only. It's not impossible though and quite a few lenders will nowadays lend to age 85 and in a small number of cases to age 90.

As with any mortgage however, the better your credit history and income vs expenditure, the more likely it is for you to be approved. Some lenders will let you take out a mortgage that will not be paid off until after you retire. However, you will need to prove that your income into retirement will be enough to cover your mortgage repayments throughout the full term of the mortgage.

If you haven't retired yet, you may need your pension provider to give confirmation of:

- Your expected retirement date
- Your current pension pot value
- Your expected retirement income



SPECIALIST 55+ MORTGAGES

Some specialist lenders have started offering long term, secured loans to those aged 55 and older. As ever, you'll pay interest on your loan each month and the amount you can borrow will be assessed based on your level of income and outgoings.

The term over which you can borrow money depends on your individual circumstances. However, generally speaking, the maximum term allowed is limited by when the youngest borrower (if borrowing with a partner) turns 95.

If the loan you go for is on an interest only basis (as opposed to traditional capital and interest repayment), your lender will require you to have a viable strategy for paying back the capital at the end of the lending period.

Viable strategies include:

- Downsizing, clearing the balance from the sale proceeds and using what is left to buy a new home without any borrowing at all.
- Sale of other property e.g. a buy to let property or a holiday home
- Selling other investments e.g. stocks or shares or the maturity of an investment such as an endowment policy or an ISA.

EQUITY RELEASE SCHEMES

Equity release schemes come in two main forms; lifetime mortgages and home reversion schemes. Equity release schemes are most appropriate for those who have no mortgage or almost paid off their existing mortgage (i.e. lower loan to values).

1. LIFETIME MORTGAGES

A lifetime mortgage allows you to borrow a cash lump sum against the value of your property. There's normally a minimum age to take out a lifetime mortgage (normally 55 or 60). For the duration of these mortgages you do not have to make any monthly repayments (neither interest nor capital). This is because the monthly interest payments are added to the money you've borrowed. You won't repay anything until your home gets sold either when you die or move into long term care. This may sound very attractive but by not paying this interest and having it rolled onto the balance each month means the loan is getting bigger and bigger and eats into the money you or your beneficiaries would receive following the sale of your home.

2. HOME REVERSION SCHEMES

A home revision scheme allows you to sell your home (or a part of it) to an equity release company. The money the equity release company will give you is likely to be lower than the market value of the property. Often the money can be given to you as a lump sum or as a regular income. Then, when you pass away or go into long term care, the equity release company will sell your property and take back what you borrowed. Again, this could reduce how much your beneficiaries can inherit from your property.

HELPING YOUR CHILDREN OR GRANDCHILDREN GET ON THE PROPERTY LADDER

In today's market, it can be hard for the younger generation to save enough money for a deposit. Spiralling rents and the cost of living in general has made it tough for first time buyers. This has meant a rise in young people relying on parents and grandparents to help them get a foot on the property ladder. Here are a few ways you can help your younger family members get on the property ladder.

1. GUARANTOR MORTGAGES

With guarantor mortgages, the amount your child can borrow is based on your income and assets, as well as theirs. You'd be guaranteeing to meet any repayments that your child failed to pay, which could be risky, especially if you still have a mortgage on your own home. Your name, as a guarantor, will not be on the title deeds as you are only there to guarantee the mortgage payments are maintained.

2. JOINT MORTGAGES

A joint mortgage considers both your and your child's income, as well as any money outstanding on your own mortgage. Both you and your child will be named on the mortgage offer and you be named on the title deeds, providing you with some power over any future transactions. As a full mortgage borrower you will also be liable for keeping up the mortgage repayments. If you are on the title deeds and you already own your own property then it is possible you will incur additional stamp duty (under current legislation).

3. REMORTGAGING

If you have a mortgage on your own property, one option that is available is to free up some cash by remortgaging, getting a further advance or even a second charge loan. Generally this involves arranging further borrowing with your existing provider or transferring the whole mortgage to another lender. You might be able to increase the term to absorb the additional borrowing or you could simply increase your monthly repayments in order to keep the term the same, or possibly both. Before remortgaging it's important to consider the impact that increased borrowing would have on your own standard of living and your retirement plans. An advantage of this is that your name is not on the title deeds of the property your child is buying, therefore no additional stamp duty is charged. A disadvantage is that you have no say in what happens to that property.

4. JOINT BORROWER SOLE PROPRIETOR

A limited number of mortgage lenders are offering joint borrower sole proprietor mortgages, enabling parents to help their children onto the property ladder. This form of lending allows parents to use their income on the mortgage application for affordability but not having them named on the title deeds at Land Registry. If the parent does go on the mortgage application but not on the deeds that means they do not actually own any part of the property itself. This means they may not be liable for any additional stamp duty or capital gains tax. As with all things tax related, you should get specialist, qualified advice before committing in this way.

5. SPRINGBOARD

If you do have some savings, but perhaps don't want to give it all to your child to fund their deposit, one option that you can use is a 'Springboard' type mortgage whereby the lender will allow a close family member to lodge money with them to form the basis of a deposit. This money is put into a savings account that cannot be released for several years (usually a minimum of three years but maybe longer). After that time the money is returned to the family member who placed it there, often with some interest being added. This allows the 'child' to buy with potentially no deposit. All the 'child' has to do is to maintain the payments for that initial duration.

HOLIDAY HOMES

CALCULATE THE STAMP DUTY YOU'LL PAY ON A SECOND HOME WITH OUR ONLINE TOOL:

charcol.co.uk/ mortgage-calculator

You may have been dreaming of a lovely holiday home to enjoy when you've got more time in your later years. You can sometimes choose to borrow the money you need against your current main residence or sometimes against the new property. Whether you'd like that holiday home to be in the UK or abroad, or whether you intend to let it out may well affect the ease at which you can get a mortgage.

PERSONAL USE:

If you intend to get a holiday home just for your own personal use, you will need another residential mortgage. The process of doing so is the same as for any residential mortgage however, you may come under more scrutiny from lenders when they assess your affordability as mentioned earlier. As you're likely to be older, the mortgage term may also be also be shorter which means it could be more expensive. Of course you can look at some of the 'post retirement' lending options outlined at the start of this article.

You should also take in to consideration that the stamp duty you'll pay on a second property will be at a higher rate than on a main residence. There will also be additional fees like mortgage arrangement, conveyancing and surveys that you'll need to factor in – not to mention the other standing costs of maintaining a second property.

INVESTMENT:

If you're looking to let your holiday home out on a short term basis (e.g. holiday lets), this will require a different type of mortgage known as a holiday let mortgage. Many traditional banks and building societies found on the high street don't offer mortgages for holiday lets. Even if they offer the standard buy to let mortgages, a mortgage for holiday lets are a different type of risk for them because the holiday property is not guaranteed to have people renting it all year round. With holiday lets you're likely to have peak and low seasons, so your rental income is likely to fluctuate.

Our experts can help you find lenders who deal with this type of set up and can help you find lenders who have experience in the holiday let market. Once again, you should be aware that you'll likely to have to pay additional stamp duty and that other fees may well apply.

Stamp duty payable on a second property:

	STANDARD RATE	BUY-TO-LET/SECOND HOME RATE (FROM 1ST APRIL 2016)
UP TO £125,000	0%	3%
£125,001 - £250,000	2%	5%
£250,001 - £925,000	5%	8%
£925,001 - £1.5m	10%	13%
OVER £1.5M	15%	15%

HOW JOHN CHARCOL CAN HELP YOU

We've been in the mortgage broking business for over 40 years. We are totally independent which means we have free reign to go out to the entire mortgage market to find a deal to suit you.

If you're planning your retirement and need advice on releasing the equity in your home, preparing a will or borrowing into retirement, our advisers will take the time to understand your circumstances and find the right solution for your needs.

96%

OF OUR CLIENTS RECOMMEND US ON*

REVIEWS

*Correct as of Dec 2017

JOHN CHARCOL™
INDEPENDENT MORTGAGE EXPERTISE

INDEPENDENT MORTGAGE EXPERTISE

Helping you get the mortgage you need to live in the home you love

Call us on: 0344 346 3670

or visit: charcol.co.uk