# Equity release

## ER1 July 2015 edition

### Web update 03: 08 March 2016

Please note the following update (amendments in **bold** type) to your copy of the July 2015 edition of the **ER1: Equity Release** study text:

### Chapter 5, section F, page 5/8

Amend example 5.4 to read:

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#### Example 5.4

Consider John who is able to borrow £25,000 on his property valued at £100,000. If he chooses to make interest payments to the lender at 9%, his monthly payments are £187.50.

If he chooses to draw down £12,000 now and £13,000 in two years time, his interest payments reduce to £90 per month, representing a saving of £2,340 over the two years in which he has deferred drawing down the full amount sanctioned by the lender.

If he has chosen to roll up interest, he will make an even greater saving as he has reduced the compounding effect of the capital that he has chosen not to release for the time being. This will, of course, benefit his estate rather than John personally.

If John borrows the whole £25,000 at the outset, the debt will increase to £27,250 by the end of year one and £29,702.50 by the end of year two. However, if he draws down only £12,000 now, the rolling debt increases to **£13,080** by the end of year one and **£27,257.20** by the end of year two. This reduces the impact of the lifetime mortgage on the estate by **£2,445.30** over the two years.

Clearly, extrapolating this saving over a longer time horizon will demonstrate even greater savings. The longer John defers the necessary borrowing, the greater the saving either to himself (if he makes interest payments to the lender) or to his estate (if he chooses to roll up the interest).