Equity release

ER1: 2018–19 edition

Web update 2: 12 October 2018

Please note the following update to your 2018-19 edition of the **ER1** study text.

Chapter 5, section E, example 5.3, page 5/8

The following example has been amended as follows (amendments in **bold**):

Example 5.3

Consider John, who is able to borrow £26,500 on his property valued at £100,000. If he chooses to make interest payments to the lender at 6%, his monthly payments are **£132.50**.

If he chooses to draw down £12,000 now and £13,000 in two years' time, his interest payments reduce to £60 per month, representing a saving of **£1,740** 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 £26,500 at the outset, the debt will increase to £28,090 by the end of year one and **£29,775** by the end of year two. However, if he draws down only £12,000 now, the rolling debt increases to £12,720 by the end of year one and £13,483 by the end of year two. This considerably reduces the impact of the lifetime mortgage on the estate 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).