



Lots of bricks and freehold value, but too little money for pleasure.

## **Free value:** Can you live off your bricks?

Many people are saving up in the house so that they can eat off the bricks when they retire. But it often ends badly, because pensioners are refused to borrow from the free value.



*Susanne Fasting , Digital consultant  
Monday 9 September 2019*

*Last updated: Tuesday 7 December 2021*

Self-employed debt adviser Anita Bjørkquist Christiansen from ABC Economics advises Danes who have lost track of their finances.

Some of Anita Bjørkquist Christiansen's customers are seniors who have saved up in their home in the belief that they can borrow against the free value when the need arises.

But they will be badly disappointed, even if you have a nice equity in your home, you can easily be refused a loan.

"Like me, most people have grown up with the idea that it's good to save up for your home, because then we can mortgage our house and live on the free value when we get old, and that way we can sweeten our old age," says Anita. Bjørkquist Christiansen. "But then they are badly disappointed when they want to use the free value, because they cannot borrow as much as they expected".

"I would therefore recommend that you contact an adviser already when you are in your mid-50s, so that you can have a plan made for the third age. It may be a good idea to take up the equity mortgage a little earlier, while you can," advises Anita Bjørkquist Christiansen.

## The debt factor sets limits

The reason must be found in the debt factor that banks and credit companies use when they process a loan application.

"The debt factor was introduced after the financial crisis and it means that the household may not have more loans than the household's annual income x the debt factor. Normally the debt factor must be between 3 and 4. My experience is that banks and mortgage credit institutions use factor 3 when it comes to people aged +60. This means that you can only borrow an amount of 3 times the household's annual income", explains Anita Bjørkquist Christiansen.

## Calculation example: Here Bo and Ida get no

Anita Bjørkquist Christiansen has made a calculation example:

### **Bo and Ida are at work**

Bo and Ida Hansen live in a house with a value of DKK 1,395,000.

80% of DKK 1,395,000 = DKK 1,116,000.

They already owe 395,000 and then there is a car loan of 80,000

Debt totals DKK 475,000.

Bo and Ida have an average total income of DKK 500,000.

No problems. They can borrow up to DKK 2,000,000. (500,000 x 4.)

## **Bo and Ida retire**

BUT now Bo and Ida Hansen are retiring and their total annual income drops to DKK 250,000

Now they must have a total debt of DKK 750,000 (250,000 x 3)

This means that the married couple cannot borrow as much as they had hoped for. Even if there is free value in the home, they cannot be allowed to borrow the money.

## **Also restriction on types of loans**

New rules for mortgage loans mean that there are also restrictions on which loans you can take out if the debt is more than 4 times the household's annual income and more than 60% of the home's value.



"If your debt is over the limit, you can no longer get short Flexloans or long Flexloans with interest-free repayments. It may be important for you if you have a loan where the grace period expires," explains Anita Bjørkquist Christiansen.

Self-employed debt adviser Anita Bjørkquist Christiansen from [ABC Economics](https://abc-okonomi.dk/) (Link: <https://abc-okonomi.dk/>).

## **You can do that if you have discretionary value:**

- 1. You can ask your bank or credit institution if you can take out a loan in your net worth.** They will look at your income. If you have the opportunity, borrow in good time before you retire.

2. **You can sell your home and find a rented home** (which will probably be more expensive) and use the money from your equity to live on.
3. **You can sell your home and buy a cheaper owner-occupied home.**
4. **You can stay in your owner-occupied home** . It will probably be cheaper than moving to a rented property, but you cannot benefit from your freehold value.
5. **You should consider what wealth means to your finances.** When your equity is tied up in the home, it does not count as assets. But when you get the money paid out, it's wealth. [See here what wealth means for pension, old-age check and allowance.](https://fagligsenior.dk/2018/10/02/pas-paa-formue-naar-du-pensionist/)  
(Link: <https://fagligsenior.dk/2018/10/02/pas-paa-formue-naar-du-pensionist/>)

*First published: Monday 9 September 2019*

*The article was last updated on Tuesday 7 December 2021 at 07:58*

Subjects: **Residence** (Link: <https://fagligsenior.dk/tag/bolig/>)

**Most read** (Link: <https://fagligsenior.dk/tag/top/>)

**Savings** (Link: <https://fagligsenior.dk/tag/opsparing/>)

**Personal finance** (Link: <https://fagligsenior.dk/tag/privatoekonomi/>)

**Mortgage loans** (Link: <https://fagligsenior.dk/tag/realcreditlaan/>)