

# Information Sheet

## 21 Equity Release Schemes

Equity release schemes give older home owners a way to turn some of the value of their homes into cash – a lump sum, regular extra income, or sometimes both. There are different names for different types of scheme, including:

- rolled-up interest loan
- home reversion scheme
- home income plan

We use the phrase ‘equity release scheme’ throughout this information sheet to cover any scheme of this type. The information sheet explains more about how these schemes work, answers some common questions on equity release, and looks at where you can get more detailed information and guidance.

**Before you take out any scheme of this type, it is vital that you seek independent financial and legal advice.**

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## Why consider an equity release scheme?

When you take out any type of equity release scheme you use part of the capital 'tied up' in the value of your home to raise extra income or a cash lump sum, or both. You keep the right to live in your home for the rest of your life.

There are many reasons why you may be thinking about equity release.

- Your home may be your most valuable possession and investment, but you may be 'asset rich and cash poor' – living in a valuable property, with the mortgage paid off, but surviving on a relatively low income.
- If you have been retired for some time you may find that your income and savings do not meet all your financial needs. Your day-to-day living costs may have gone up while your income has stayed unchanged, or gone down, due to inflation or low yields from investments or savings.
- You may want to get hold of a cash lump sum to pay for repairs or adaptations to your home, or to replace a car or pay for 'extras' such as holidays. You may want to raise some cash to help your children or grandchildren. Turning some of the value of your home into cash can help pay for any of these things – cash raised through an equity release scheme does not have to be spent on your home or used to buy an annuity.

It is, of course, vital that you realise that once you spend this money, it has gone - just as if it had been any other kind of savings or income. You need to consider very carefully just how urgent your financial needs are, and whether an equity release scheme is the best way of solving the problem. **Any scheme you take out will have an effect on the value of your home, and on the value of your estate when you die.** More information is given on this later.

## Qualifying for an equity release scheme

You will have to meet a number of conditions before you take out an equity release scheme. These vary between the different companies providing equity release schemes, but will usually include some of the following points.

- The main condition relates to your age – different companies offering these schemes have different minimum ages. **The qualifying age for**

**some schemes is 55, but many require that you are older – 65 or even 70.** You will need to contact each company individually to find out their rules.

- You need to own your own home, and will normally have paid off any previous mortgage. (Sometimes a very small outstanding mortgage may be cleared as part of one of these schemes.)
- Other conditions could relate to the type of property - some companies do not accept flats, for example. Freehold properties will normally be acceptable, and leasehold properties may be acceptable as long as at least 75 to 80 years of the lease is remaining.
- The property may have to be worth a minimum amount – the minimum property value varies from scheme to scheme but is usually at least £80,000.
- The property will also need to be in a reasonable state of repair.

What next?

If you qualify, the next step is to consider the differences between the main types of scheme – **lifetime mortgages** and **reversion schemes**.

- Mortgage schemes are based on **raising a loan** against the value of your home.
- Reversion schemes are based on **selling** all or part of your home.

## Lifetime mortgages

With this type of scheme you **borrow** money from a bank, building society or other lender, and give this lender a mortgage over your home.

Rolled-up interest loans

With a **rolled-up interest loan** (sometimes just called a roll-up loan) you take out a loan against the value of your home. You do not pay off any interest or capital until your property is sold. The interest builds up year after year and is added to the amount that you borrowed, and is paid off when your home is eventually sold.

A rolled-up interest loan should usually be based on a fixed interest rate rather than a variable one. This protects against any interest rate increases in the future.

This type of loan can be risky, as the amount you owe can mount up very rapidly. This can be dangerous: if the loan runs for a long time you could end up owing more than your home is worth. It is therefore important to look for a scheme which guarantees that you can never owe more than the value of your property. This is often called a 'no negative equity' guarantee. Any guarantee of this type needs to be checked out very carefully. **Always** get independent financial advice if you are considering taking out a rolled-up interest loan.

#### Interest-only loans

With an interest-only loan, a bank or building society lends you an amount of money against the value of your home, giving you a lump sum. You then make monthly interest repayments, but don't have to pay back any of the capital until the house is sold.

Not all banks and building societies offer interest-only loans; you may have to shop around. A monthly magazine called *Moneyfacts* provides details of financial organisations offering interest-only loans. This magazine is only available on subscription, although you can get single copies direct from the publisher. You could also ask at your local reference library to see if they keep copies. (Contact details for Moneyfacts Publications are given on page 15.)

#### Home income plans

With a **home income plan** you use the money raised by taking out a mortgage against your home to buy an annuity, which provides you with a monthly income for the rest of your life.

Home income plans have become less popular with the withdrawal of special MIRAS (mortgage interest relief at source) tax relief in March 1999. This change in the system means that people taking out a home income plan now receive less income than they would have done when this tax relief was in place. (Note that people who took out home income plans **before** March 1999 still get this tax relief.) The withdrawal of MIRAS together with lower annuity rates at the moment means that there are now fewer providers of home income plans.

Home income plans now tend to be more suitable for older people (for example those over the age of 80) who will receive a higher annuity due to their shorter life expectancy.

With a home income plan you still own your home, but take out a mortgage against it – usually up to a maximum of 75 per cent of its value. The money raised is used to buy an annuity which then pays out a regular monthly income. Interest payments on the loan are deducted from your annuity payments before you receive them. When you (or the surviving partner of a couple) die, the house will be sold and the amount you borrowed will be repaid. Anything left over will go into your estate.

Some home income plans also offer the option of receiving a cash lump sum in the early stages, although this will reduce the monthly income you receive.

It is recommended that you only take out a home income plan which offers a **fixed mortgage interest rate**. With a varying interest rate your monthly income will go down when interest rates are high. This is because interest is taken away from your income before you receive it.

#### Home Improvement Trust

If you want to release some of the value of your home so that you can pay for repairs, improvements or adaptations to your home, a ‘not for profit’ organisation called the Home Improvement Trust may be able to help you. The Trust has set up a scheme called **Houseproud** which helps older home owners repair, improve or adapt their homes so they can live there safely and independently.

Houseproud aims to make equity release schemes more accessible to older people. It has links with a number of lenders – all regulated banks and building societies – which provide low cost loans to older people, secured against the value of the home. The Home Improvement Trust acts as an impartial ‘go-between’ and arranges the property valuation, as well as liaising with the bank or building society on your behalf.

A number of different equity release schemes are available through Houseproud, but all the banks and building societies involved provide a **written guarantee of no repossession** while the original borrower remains in the house.

As a safeguard, the Home Improvement Trust arranges for the borrower to receive advice from an independent financial adviser, free of charge, and provides a full written analysis of all the costs involved, before any financial commitment is made.

The Trust works closely with local home improvement agencies (HIAs) in England, Wales and Scotland. HIAs provide older people with help and advice on repairs, improvements and adaptations, and are often known as **Care and Repair** or **Staying Put** schemes. As well as providing advice and information, these agencies will organise and supervise the work being done, and can offer more guidance on your financial situation.

For an information pack and video about the Houseproud scheme contact:

### **The Home Improvement Trust**

7 Mansfield Road

Nottingham NG1 3FB

Helpline: 0800 783 7569

Web: [www.improvementtrust.fsbusiness.co.uk](http://www.improvementtrust.fsbusiness.co.uk)

## Reversion schemes

With this type of scheme you **sell** all of your home, or a proportion of it, to an investment company. While you no longer fully own your home, you continue to live there as a tenant for the rest of your life. You will live in your home rent-free, or you may have to pay a nominal rent, perhaps £1 a month. If a scheme is purchased jointly, both partners have the right to live in the house for the rest of their lives, even if one partner should die.

You can choose to receive a cash lump sum, or a monthly annuity income, or both. When you take out a reversion scheme you will not receive the full 'market value' of the property, but a percentage of it according to your age and sex. The older you are the more you will get, and men will get more than women because of their lower life expectancies.

When the property is sold on your death, the investment company receives a share of the proceeds, in proportion to the amount of the property you sold to them. If you sold them the whole property they will get all of the proceeds, or if you sold them a 75 per cent share of your home they will receive 75 per cent of money resulting from the sale.

Remember that if you sell **all** of your home, and it becomes more valuable in the future, the increase in value will benefit only the investment company. If you retain a share, your estate will benefit from part of any increase in the value of your home.

## Questions on equity release schemes

How much money will I receive?

This depends very much on what type of scheme you go for, so get a number of quotes to see what sort of sum you may be looking at. As a rule, you will receive more money the older you are when you take out the scheme. Men will also receive more than women of the same age, and a single person more than a couple. This all comes down to life expectancy, and how long a company will have to wait to benefit from their investment. A man will receive more than a woman of the same age because he has a shorter life expectancy; a couple would have a longer 'joint' life expectancy than a single person and so will receive less.

Will I be able to live in my home for the rest of my life?

All schemes should guarantee that you, and your partner, will be able to continue living in your home for the rest of your lives. If you do not get this guarantee, do not take out the scheme.

Will I be able to move house in the future?

If you want to be free to move home in the future, choose a scheme that clearly offers this option. Check whether any scheme you are interested in allows you to move, and to 'transfer' the scheme to your new property.

With a mortgage scheme, if you decide to sell your present home and move to one that is worth less, you may have to use part of the proceeds of the sale to pay off part of the mortgage. If your scheme demands this, check what the effect on your financial situation would be. Make sure that the interest rate remains unchanged after the move.

You should also check if there would be any penalty if you wanted to end the scheme before your death – for example if you sold up completely to move into a care home or rented sheltered housing.

What if I change my mind after taking out a scheme?

It will usually take at least two or three months to consider and decide on a scheme, including getting quotations and offers and preparation of the legal documents. You will have this time to change your mind before you commit yourself.

If you think that you may want to cancel an equity release scheme in the future (for example, if you are expecting to receive a windfall or an inheritance in a few years time) it is advisable to take out a lifetime mortgage rather than a reversion scheme. You can usually pay off a lifetime mortgage early, although you should check if there are any penalty charges. Reversion schemes, however, can't be cancelled.

Are equity release schemes regulated?

This depends on what type of scheme you choose, and what you do with the money. The Financial Services Authority (FSA) regulates all mortgage lending and advice, including mortgage based equity release schemes. This means that you have access to a complaints procedure, and to a compensation scheme, if things go wrong.

Reversion schemes (which involve selling all or part of your home) are not regulated at the moment. However, the Government has agreed that reversion schemes will be regulated by the FSA in the future, though no date has been announced yet.

If you invest the money you get from an equity release scheme in an annuity then the company involved will be regulated by the FSA.

Many of the major companies offering equity release schemes sign up to the **SHIP Code of Practice**. SHIP stands for 'Safe Home Income Plans', but the code of practice covers different types of equity release scheme, not just the mortgage-based home income plans.

SHIP members agree to follow a voluntary code of practice, undertaking to provide a fair, safe and complete presentation of their schemes to potential clients. SHIP members provide a certificate which has to be signed by the client's solicitor before a scheme can be taken out. If you would like a leaflet on the SHIP code of practice contact:

**SHIP**

PO Box 516

Preston Central

Preston PR2 2XQ

Tel: 0870 241 6060

Web: [www.ship-ltd.org](http://www.ship-ltd.org)

Are there any costs involved in taking out a scheme?

Yes. There will be solicitor's fees, the costs of having your home valued by a surveyor and possibly also an administration fee charged by lender and the company organising the scheme. These costs vary; some companies refund some of your costs once you commit to the scheme whereas others do not - another reason to get a number of quotes before choosing a scheme. Make sure that all costs are clearly stated and that you understand exactly what you are paying for.

What happens if property prices change?

With a lifetime mortgage, such as a home income plan, **any** changes in property prices will affect your heirs. If property prices rise, your home will be worth more when it comes to be sold and your heirs will gain the full benefit after the mortgage (and any previously unpaid interest) has been paid off.

If property prices fall and your home is worth less, your heirs will inherit a smaller sum after the mortgage has been paid off. If the value of your home falls substantially and is worth less than the mortgage taken out, there may be nothing left for your heirs to inherit. However, they will not be liable for any shortfall.

If you choose a reversion scheme and sell **all** of your house, then only the company that bought your house will be affected by changes in property prices. If you sell **part** of your house and its value goes up or down, both the company that bought the house and your heirs will be jointly affected.

**Make sure that the effect of changes in property prices is clearly stated and that you understand what can happen before you commit yourself to any scheme.**

Who pays for repairs to the house?

With all schemes, you are responsible for any repairs and maintenance. You also still have to pay all your usual bills, such as Council Tax, electricity bills, insurance and so on.

What happens if someone moves in with me after I take out a scheme?

Anyone who moves in with you **after** you take out a scheme – whether a relative, friend or a new husband or wife – may not be able to stay in the property after your death. This is because the scheme would come to an end, and the property would have to be sold.

If there is a chance that a new partner may be moving into your home, talk to any potential scheme provider about the implications. It might be possible to transfer a scheme into your joint names, although this might not be an option if your new partner is under the age of 60 when they move in. In this situation your partner would not be able to remain in the home after your death.

What happens to the house when I die?

If you sold part of your house under a reversion scheme or if you have taken out a lifetime mortgage, the executor of your estate should normally be responsible for the sale. However, if you have sold **all** of your house under a reversion scheme, then the company that purchased it will sell your house after your death. You may be asked to make a will to make matters clear.

Does the house have to be sold within a set period of time after my death?

Usually, but schemes vary. Lifetime mortgages with fixed rates of interest often state that if the house is not sold within a set time period following your death, normally six months, then interest will be charged at a variable rate until the loan is repaid. This would affect your estate. You need to check the terms and conditions of the different schemes you are looking at very carefully.

What happens if I need more money in future?

Some schemes will allow you to mortgage or sell a further portion of your home at some time in the future. If you think that you may want to do this, check that the scheme offers you the option.

## Points to consider before going ahead

Before deciding to take out any sort of equity release scheme, it is important to think about whether this is really your best option. There may be other ways of raising additional money, or addressing your housing problems.

- If you are thinking about taking out a scheme because you are struggling on a low income, have you made sure you are getting all the welfare benefits you are entitled to? Many older people are entitled to benefits such as Pension Credit or Council Tax Benefit, but do not claim them. Or you may be entitled to a disability benefit such as Attendance Allowance. To find out more about any benefits you may be entitled to, see contact our free advice line, **SeniorLine**, on **0808 800 6565 (0808 808 7575** if you are in Northern Ireland). Or contact the Information Resources

Team for our free advice leaflets *Can You Claim It? or Claiming Disability Benefits*.

- If you are in debt, get advice on how to manage this problem before even considering taking out any sort of equity release scheme. You can get advice on managing debt from your local Citizens Advice Bureau, or from the **National Debtline** on **0808 808 4000**, or from the **Consumer Credit Counselling Service** on **0800 138 1111**.
- If you want to raise a lump sum to help pay for repairs to your home, first find out whether you are entitled to any help from your council, through a grant or loan. More information on improvement grants is given in our information sheet no. 4 *Home Repairs and Improvements*.
- Does your current home really meet your needs? It could be worth thinking about selling your home, and buying something smaller, or perhaps you might be interested in specialist retirement housing. For more advice on all the different options, see our free advice leaflet *Housing Matters*.

If you have considered all of these issues there are still a couple of factors to take into account before going ahead with an equity release scheme.

- **If you are currently getting any of the income-related social security benefits, such as Pension Credit or Council Tax Benefit you should think carefully before taking out any equity release scheme.** Any cash lump sum, or additional income, that you receive when you take out a scheme could mean that you are no longer entitled to these benefits. Before taking out a scheme, you will need to weigh up any losses against the benefit of the extra income that you could be getting, now and in the foreseeable future.
- All schemes reduce your share in the value of your home, which means reducing the inheritance you can leave to your heirs. It is usually a good idea to discuss your intentions with your family, so that everyone is clear about the implications and misunderstandings are avoided. However, the decision on whether or not to go ahead is ultimately up to you.

## What are the next steps?

If you decide that you want to take out an equity release scheme, the next step is to think about whether you want to find a scheme via an independent financial adviser (IFA), or want to arrange a scheme yourself, directly with a company.

If you decide to work with an independent financial adviser (IFA) it is important to find one with experience of all the different schemes on offer. He or she should be able to compare the different schemes and advise you on which will best meet your needs. The adviser should also advise you on the credibility and financial stability of the providers of the scheme and of any investment that you make. You may need to 'shop around' to find an IFA with the knowledge you need – contact a number of different advisers and ask them about their qualifications and experience.

If you are claiming any income-related benefits, such as Pension Credit or Council Tax Benefit, it is important that you make sure that the adviser understands what impact your taking out an equity release scheme would have on your entitlements.

If a regular income, or lump sum, from an equity release scheme meant that you would no longer be entitled to these benefits the financial advantages of taking out this sort of scheme could be cancelled out. So it is therefore very important that you check that any potential adviser is familiar with the workings of the welfare benefits system.

- **Help the Aged Equity Release** is an advice service provided by NHFA Ltd, a chosen firm of Independent Financial Advisers and Equity Release Advice Specialists. The service provides impartial advice on finding the most appropriate equity release scheme to meet your current personal circumstances. A specialist NHFA Adviser will discuss your circumstances and requirements with you, and will then make an appropriate recommendation for you to consider, drawing from a panel of equity release providers from the whole of the market. This may include a recommendation that equity release is not the right solution for you, given your current circumstances. For more information on this service contact:

**Help the Aged Equity Release**  
FREEPOST NAT15540

Witney OX29 4BR

Tel: 0845 2300 820

Web: [www.helptheaged.org.uk/equityrelease](http://www.helptheaged.org.uk/equityrelease)

- The **IFA Promotion Hotline** can give you the names of your nearest independent financial advisers – call **0800 085 3250**. To check that your financial adviser is properly authorised, contact the Financial Services Authority which holds a Central Register of all authorised financial advisers. Call the **FSA Consumer Helpline** on **0845 606 1234**.

If you decide to arrange a scheme yourself, without using an independent financial adviser, you will need to approach a number of providers for details of their particular schemes. Get details of a wide range of schemes so that you can see how they compare. You will have to work out the pros and cons for yourself – remember that each firm will be ‘selling’ the benefits of their own scheme, and will not be pointing out any disadvantages! Even if you are arranging a scheme yourself, it is good idea to get independent financial advice before making a final decision.

However you arrange a scheme, it is **vital** that you get independent legal advice before signing any agreement. You **must** have a solicitor who can check out the agreement for you and advise you of its implications. Choose a solicitor who will act on your behalf only, not one recommended by the company providing the scheme.

If you do not already have a solicitor, your local library and some Citizens Advice Bureaux may be able to give you a list of solicitors and the areas of law they specialise in. Alternatively, go to a solicitor who has been recommended by family or friends.

**Never enter into any agreement without a full understanding of all the implications. It is essential that you get independent financial and legal advice before taking out any type of equity release scheme.**

## Finding an equity release scheme

If you decide not to use an independent financial adviser you will need to gather information on a range of equity release schemes yourself. As mentioned previously, we suggest that you get information from as many companies as

possible so that you can compare the benefits on offer. It is also strongly recommended that you take independent financial and legal advice before entering into any agreement.

- **SHIP** (Safe Home Income Plans) can supply you with a list of their members – there are 18 firms signed up to the SHIP Code of Practice. Contact the **SHIP Helpline** on **0870 241 6060**, or go to their website **www.ship-ltd.org** for more information.
- **Moneyfacts** magazine also lists details of a wide range of equity release schemes. See page 4 for more information about this publication. Their address is on page 15.

## Useful contacts

### **Age Concern England**

#### **Astral House**

1268 London Road

London SW16 4ER

Tel: 0800 00 99 66

Web: [www.ageconcern.org.uk](http://www.ageconcern.org.uk)

Age Concern England publishes a guide called *Using your home as capital 2005-2006*, by Cecil Hinton and Mark Goodale. It is available from Age Concern Books, Unit 6, Industrial Estate, Brecon, Powys, LD3 8LA. Tel: 0870 4422 120 and is priced at £4.99 (plus £1.99 p & p).

### **Financial Services Authority (FSA)**

25 The North Colonnade

Canary Wharf

London E14 5HS

Consumer helpline: 0845 606 1234

Web: [www.fsa.gov.uk](http://www.fsa.gov.uk)

### **Help the Aged Equity Release**

FREEPOST NAT15540

Witney OX29 4BR

Tel: 0845 2300 820

Web: [www.helptheaged.org.uk/equityrelease](http://www.helptheaged.org.uk/equityrelease)

The Help the Aged Equity Release service provides impartial and confidential advice on finding the most appropriate equity release scheme, and will provide you with a report detailing the most appropriate options for you to consider.

### **Home Improvement Trust**

7 Mansfield Road

Nottingham NG1 3FB

Helpline: 0800 783 7569

Web: [www.improvementtrust.fsbusiness.co.uk](http://www.improvementtrust.fsbusiness.co.uk)

The Home Improvement Trust aims to make equity release schemes more accessible to older people who need to pay for repairs, adaptations and improvements to their homes through the Houseproud scheme.

### **Moneyfacts Publications**

Moneyfacts House

66-70 Thorpe Road

Norwich NR1 1BJ

Tel: 0870 2250 100

Web: [www.moneyfacts.co.uk](http://www.moneyfacts.co.uk)

### **SHIP (Safe Home Income Plans)**

PO Box 516

Preston Central

Preston PR2 2XQ

Tel: 0870 2416060

Web: [www.ship-ltd.org](http://www.ship-ltd.org)

Contact SHIP for an information leaflet on their code of practice, and for details of participating companies which pledge to observe it.

For further information contact:

Information Resources Team  
Help the Aged  
207–221 Pentonville Road  
London N1 9UZ  
Tel: 020 7278 1114

If you have access to the internet you can download our information sheets and advice leaflets by logging on to **[www.helptheaged.org.uk](http://www.helptheaged.org.uk)**

**SeniorLine** is the free welfare rights advice and information service run by Help the Aged for older people and their carers. Trained advice workers offer free, confidential and impartial advice about:

- Welfare and disability benefits
- Community and residential care
- Housing options and adaptations
- Access to health and community services
- Equipment to assist independence
- Support for carers
- Agencies offering local practical help

Freephone: **0808 800 6565**

Textphone (Minicom): **0800 26 96 26**

**9am to 4pm, Monday to Friday**

If you are in **Northern Ireland**, contact **Senior Line** on **0808 808 7575**.

IS(NO)21  
November 2001(NL)  
Last updated: July 2006 (GP)  
Next update due: December 2006

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