Use of Housing Equity for Beginners

A self training module

Commissioned by

FirstStop
Advice for older people

Written by

Care&Repair England

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About this training module

This self training module is for people who want to understand the basic ideas behind use of housing equity in later life and the main types of equity release schemes.

It is aimed at:

- *older people & their families*
- *volunteers who work with older people*
- *generalist advisers eg people in voluntary organisations and community groups*

It will help you to understand:

- *the main types of equity release*
- *some of the factors to consider if thinking about equity release*
- *sources of more specialist information and advice*

The training does NOT cover any detail about specific financial products or the detail of working out whether an equity release product is right for specific circumstances.

The approach taken in the training is based on:

- *knowing where to look for information when you need it*
- *understanding your limitations and knowing when to look for more specialist advice*

Some of the information applies only to England - there may be different arrangements in Scotland, Wales & Northern Ireland.

The module has been commissioned by **EAC FirstStop**, an independent, free service providing advice and information for older people, their families and carers about care and housing choices in later life
EAC FirstStop www.firststopadvice.org.uk Advice Line: 0800 377 70 70

The module has been produced by **Care & Repair England**, an independent charitable organisation which aims to improve older people's housing conditions. www.careandrepair-england.org.uk.

Disclaimer
Every effort has been made to ensure that the information in this module is accurate. However, Care & Repair England and EACFirstStop do not accept any responsibility for errors or omissions. This is a fast moving field – contacts, policy and practice are constantly changing. We would welcome any feedback about content, eg. broken weblinks, organisational changes. Please email these to info@careandrepair-england.org.uk.

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What does this training module cover?

The Module is organised into 4 parts

Part 1 Housing equity - an overview

Housing equity - an overview

What is 'housing equity'? (and how does it get 'released'?)

Housing Equity

Your 'housing equity' is the market value of the home that you own minus any mortgage or debt held against it.

For example, if you have had your home valued at £200,000 and you still owe £50,000 on your mortgage (with no other charges on the property), your housing equity is currently £150,000.

Note that the amount of your housing equity therefore goes up and down as the housing market and house prices fluctuate, and also changes according to your outstanding mortgage or debts held on the property.

The amount of money that can be taken as an equity release loan is not necessarily the same as the value of your current equity in the property. How much you can take out will be determined by your age(s), the property value and sometimes your health. The amount will vary between lenders and the type of equity release scheme.

How do I 'release' equity?

You can sell your home and use the equity that you are left with (ie. after paying off any outstanding mortgages/debts on the property plus any costs associated with the sale) in any way you choose. For most people this will be to buy another home eg. trading down from a more expensive property to a cheaper one. Some may opt to rent a home and use the equity released from the sale of the home in a variety of ways.

You can also release equity by borrowing an amount of money (how much will depend upon the equity in the home and your circumstances) via an equity release scheme which will provide cash whilst you continue to live in the home.

To take out an equity release scheme, you:

- have to be over a certain age (typically over 55)
- continue to be responsible for maintaining your home

How do I get the money?

You can get your money as a cash lump sum to use as you wish. If you want a regular income from your equity release, there are various options including:

- Invest the lump sum in an annuity or other investment to provide a regular income (with some schemes the equity release provider does this for you)
- The equity release scheme provides a regular income that is not linked to an annuity or investment
- Drawing down an income or lump sum(s) as and when you need it
- Combination of the above

Housing equity - an overview

What is 'housing equity'?

Sounds simple?

The idea sounds simple, but the reality of equity release schemes is that they are complex and you should always consider taking professional advice before making any commitment.

Note that if you receive means tested benefits eg. pension credit, help with council tax etc., the lump sum or a new source of income might affect your entitlement to those benefits.

Information & advice about equity release schemes

Who can offer information and/or advice about taking out equity release is slightly complicated because of Financial Regulation.

Firms selling equity release schemes must usually be regulated by the Financial Conduct Authority (FCA). This is the independent body which regulates the financial services sector. Giving advice about FCA regulated loan products is also a regulated activity, whereas providing information usually is not.

This does mean that many small, independent advice and information organisations, especially in the voluntary and community sector, have to be very careful that they clearly offer 'information' about equity release, but not 'advice' about particular products.

There can be confusion about the difference between information and advice. If someone provides an impartial statement of facts without giving an opinion, recommending a course of action or particular product, this is giving information. It could include an explanation of different equity release types (as is the case in this training module), pointing out the main differences between features of loan products or giving general explanatory information leaflets.

If someone provides information on a selective basis which might influence the person's decision, gives a view about what is the right equity release product for someone, or recommends a particular provider, this is regulated advice.

How to find trained, specialist providers of regulated advice

Independent Financial Advisers (IFA) are listed on *www.unbiased.co.uk*

Members of The Society of Later Life Advisers (SOLLA) have to meet a level of professional standards, including undertaking specialist training. Listed on *www.societyoflaterlifeadvisers.co.uk*

Housing equity - an overview

What is 'housing equity'?

Who can help to advise older people about housing, care and related finance in later life?

EAC FirstStop is an independent, free service provided by the national charity Elderly Accommodation Counsel (EAC) in partnership with other local and national organisations.

The service is for older people, their families, carers and professionals who are working with them. It aims to help people get the help or care they need to live as independently and comfortably as possible.

You can access EAC FirstStop through:

- the website *www.firststopadvice.org.uk*
- via the national telephone Advice Line 0800 377 70 70 or
- through one of their local partner organisations, some of which can visit the older person to talk through their options and help them implement their choice

Who can offer pensions and later life finance information and guidance?

Use of housing equity, savings and pensions are closely connected. There is now a government backed organisation, The Pensions Advisory Service, offering free, impartial information and guidance about pensions and retirement plans. NOTE They will not offer specific equity release advice.

www.pensionadvisoryservice.org.uk

Telephone: 0300 123 1047

Housing equity - an overview

Task 1

Have a go at these questions to check that what you have read so far is clear. You will need internet access.

1. Mrs Brown's main worry is organising and paying for the repairs to the home which she owns. She has seen an advert about equity release which made her think that this would be a good way to live in her home but no longer have to sort out the maintenance problems.

   Is she right about this?

2. Mr Black lives in a large house which is worth £300,000. He owns this outright as a freeholder. He has been thinking about moving and has found a suitable flat which would cost about £190,000.

   He estimates that paying estate agents, solicitors, stamp duty, removals, redecorating and the improvement works that are needed on the flat will amount to about £45,000.

   How much equity will he have released by downsizing if he decides to go ahead with the move?

3. Miss Scarlett owns her flat without a mortgage but has limited income since her divorce. She is 48 and doesn't want to move, but has heard about equity release.

   Is this an option for her?

4. Mr Amber is 78 and needs advice about which equity release scheme would be best for him. He has no idea where to go for this. He lives in Taunton and can't travel too far.

   Create a list of possible specialist, regulated advisers.

Answers in Appendix A

Part 2

Types of equity release schemes

Types of equity release schemes

In this section we consider the characteristics of the main schemes

Equity release schemes are either *Lifetime mortgages* or *Home reversion* schemes.

Lifetime Mortgages

You borrow a lump sum secured on the home. The outstanding mortgage is repaid from the sale of the home when you move out (eg. to a care home) or when you die.

You remain the owner of your home (and fully responsible for its upkeep).

The main types of lifetime mortgage are:

Interest-only mortgage

The loan you get is a cash lump sum. You pay interest on the loan each month (fixed or variable rate). The amount you originally borrowed is repaid when your home is sold.

Roll-up mortgage

Instead of paying the interest each month out of your income, the interest is added onto the original loan (monthly or yearly at a fixed or variable rate). You then pay back the lump sum plus the accumulated interest when the home is sold.

The amount you owe can grow quickly as there is a 'snowball' effect on the amount of the loan because you are paying interest on interest (see illustration opposite). Some schemes put a cap on the size to which the loan can grow. Others guarantee that you do not end up owing more money than your home is worth and that you will not be forced to sell your home to pay back the loan.

The equity you release can be a cash lump sum or used to generate a regular income.

Table 1

Number of years since you took out the loan	Amount you owe if you take a lump sum of £45,000 at the start and if the mortgage interest rate is:		
	5% a year	7% a year	9% a year
5	£57,433	£63,115	£69,239
10	£73,301	£88,522	£106,532
15	£93,552	£124,157	£163,912
20	£119,399	£174,136	£252,199
25	£152,387	£244,235	£388,039

Types of equity release schemes

Fixed repayment mortgage

Instead of paying regular interest on the loan, you agree that the lender will be paid a higher sum than you borrowed when your home is sold. This higher sum is agreed at the outset. The amount of this final repayment will depend on your age and life expectancy. The lender will also be taking into account the housing market trends and predictions.

The loan you get is a cash lump sum.

Shared appreciation mortgage

With this type of lifetime mortgage the lender gets an agreed share of any increase in the value of the property plus the amount of the original loan when the home is sold. In return the borrower usually pays a lower (or sometimes zero) rate of interest on the loan. (This type of scheme came into disrepute after the last property boom and is less commonly available; some may now include a degree of protection eg. capping the relative rate of interest).

Home income plan

With a Home Income Plan the lump sum released through the equity release is used to buy an annuity that gives you a monthly income for life. Out of this income you pay the interest on your loan and the rest is for you to use as you wish. The amount you originally borrowed is repaid when your home is sold.

The older you are when you buy an annuity, the higher the income you'll get, as there are fewer years over which the income will need to be paid. Conversely, if you take out a home income plan soon after retirement and have a normal life expectancy, the extra income you will get will be lower.

Home reversion

Home Reversion involves selling your home (or part of it) to a company for a percentage (often low) of its market value. In return you usually continue to live in the home, normally rent free, for as long as you wish. In most cases you remain responsible for the cost of maintaining the home.

You can agree to get a cash lump sum from the proceeds of the sale, or a regular income, or both. You will normally be paid significantly less than the full market value of your home typically between 20% and 60% - the older you are when you start the scheme, the higher the percentage.

With some schemes, you can pay rent in return for more money from the sale. Once the scheme has started, the buyer of your home benefits from any rise in its value. If you have only sold part of your home, you benefit from any rise in the value of the part you have kept.

For sources of more detailed information about the different types of Equity Release see *Part 4: Information Sources*

For free, impartial information & advice contact EAC FirstStop national telephone Advice Line on 0800 377 70 70 or visit the website *www.firststopadvice.org.uk*

Part 3

Factors to consider

Factors to consider

If you are thinking about using the equity in your home these are some of the factors to take into account.

This is not a comprehensive guide - always seek expert advice before taking out an equity release scheme.

Before starting a particular equity release scheme, it's worth thinking about the following questions and be ready to ask an adviser for answers to any queries you have about particular schemes.

Think about:

- **Could it affect your income tax position?**

eg. result in paying tax on your income.

- **Could it affect your entitlement to means tested welfare benefits?**

eg. a lump sum could put you over the savings threshold, whilst additional regular income could result in loss of certain benefits.

- **What would happen if you wanted to move home? Could it restrict your options in the future?**

eg. as most equity release loans have to be repaid when the property is sold, would you be left with enough money to buy another home, eg a smaller/ adapted property?

- **Could you reach a point where you owe more than the property is worth?**

eg. does the scheme protect you from this eventuality?

- **What would happen to anyone else living in the home if you died?**

eg. if you have a dependent relative living in the home, when you die the equity release loan will have to be repaid. Could they find a way to meet that cost? If not they would have to move out of the home and even if they are the sole beneficiary of your estate they may not be left with enough money to buy somewhere else.

- **What would happen/what would be the financial implications if you died soon after taking out the equity release scheme?**

eg. with a home reversion scheme you will have been paid a fraction of the market value of the home - maybe 20% - but the company owns the property immediately.

- **How might it affect the amount of money you will be able to leave to your beneficiaries?**

eg. are your children expecting to inherit the home in full and relying on this eg. to help with their own mortgages?

- **How will inflation affect the value of any fixed income you receive?**

eg. if income from an annuity is fixed, £100 will buy more today than in ten years' time.

- **Have you taken into consideration the cost of taking out an equity release product?**

eg. arrangement fee (c. £750); valuation fee (linked to the value of the property est. 0.1% - £250 for £250,000 property); legal costs: £400 to £800+. With a lifetime loan sometimes these costs are incorporated into the loan. Note also possible additional buildings insurance and early repayment charges in some cases.

Factors to consider

What happens if I need long-term care?

eg. if you move into a care home the equity release scheme will usually end and the property will be sold to pay off the loan, with any remaining funds available to meet the cost of care (subject to the capital amount that the Care Act law and regulation allows you to retain - this is yet to be determined but the current level is £23,250)

Limiting some of the risks

As well as thinking through the above, making sure that you take out equity release from a reputable provider is important. Here are some of the ways to do this.

Equity Release Council

This organisation represents the providers, qualified financial advisors, lawyers, intermediaries and surveyors who work in the equity release sector. Its members agree to abide by a voluntary code of conduct. Equity Release Council's Code of Conduct puts in place a number of safeguards and guarantees for consumers.
www.equityreleasecouncil.com

Financial Conduct Authority

The FCA publishes a regularly updated list of firms to avoid – see *www.fca.org.uk/consumers/protect-yourself/unauthorised-firms/unauthorised-firms-to-avoid*

If things go wrong

Financial Ombudsman Service
www.financial-ombudsman.org.uk is the government appointed service set up to sort out individual complaints that consumers and financial businesses aren't able to resolve themselves.

The Financial Services Compensation Scheme
www.fscs.org.uk is the compensation fund of last resort for customers of authorised financial services firms.

Factors to consider

Task 2

Have a go at these questions to check that what you have read so far is clear. You will need internet access.

1. Mrs Cobalt is 83. She lives on a basic state pension, pension credit and council tax reduction (all means tested benefits). She has only £3,000 in savings. She is wondering whether to take out an equity release loan.

What immediately springs to mind as an important factor that she needs to consider?

2. Mr Gold is 75 and in good health. He lives in a high value property in London but has quite a low income (State Pension and small Private Pension) just over the level at which he could claim means tested benefits (he has already looked into this). He has no children or close relatives to leave his property to. He definitely does not want to move home but he would like to have a few nice holidays and be able to live without worrying about the bills.

What immediately springs to mind as factors that he needs to consider?

3. Mr Silver is looking into taking out a rolled up lifetime mortgage. He is considering a loan of £45,000 - his home is currently worth £200,000. He is 69 and in good health. The scheme he is looking at is quoting a fixed interest rate of 9%.

Using the table above, how much would his loan amount to in 10 years time ie when he is 79?

4. Mrs Amber is 76yrs. She lives in a modest house which she owns worth about £150,000 with her disabled son who is 57yrs and who has never lived anywhere else. She is thinking about whether to take out equity release as the cost of living is so high and they could really do with more money.

What immediately springs to mind as factors that she needs to consider?

Answers in Appendix B

Part 4

A-Z of information sources

A-Z of information sources

Note that we only list charity, consumer or government backed organisations who offer independent information.

There are also comparison websites run by equity release scheme providers and advisers.

Sources of Information About Equity Release

AgeUK

www.ageuk.org.uk   Advice Line: 0800 169 6565

A charity which offers a wide range of free information for older people via tel advice, website, factsheets and via local AgeUK groups.

Click here for the link to their factsheet about Equity Release

Consumers Association

www.which.co.uk

Offers independent advice to enable consumers to make informed decisions about services and products.

This webpage explains in more detail how different types of equity release work, and what to consider if thinking about taking out a scheme.

www.which.co.uk/money/retirement/guides/equity-release-explained/

EAC FirstStop

www.firststopadvice.org.uk

Advice Line: 0800 377 70 70

Free advice & information about all aspects of accommodation, care & support via tel advice, factsheets, website and personalised housing & care options reports.

This webpage explains equity release and has a link to the brochure.

www.housingcare.org/guides/item-equity-release.aspx

Money Advice Service

www.moneyadviceservice.org.uk 0300 500 5000

The Money Advice Service helps people manage their money. It is an independent service, set up by government. Offers free and impartial advice.

This webpage describes how the different types of equity release scheme work and what to expect from firms that sell them.

www.moneyadviceservice.org.uk/en/articles/equity-release

Related Information and Advice about Money and Housing

Citizens Advice (CAB)

On-line Advice Guide: **www.adviceguide.org.uk/**

Local CAB provide free advice on a wide range of subjects via website and local bureau.

Home Improvement Agencies (HIAs)

www.foundations.uk.com   0845 864 5210

HIAs offer help to organise & carry out home repairs, adaptations and related practical work on home, including offering advice about financing the work. Foundations can put you in touch with your local HIA.

Independent Age

www.independentage.org.uk

Advice Line: 0800 319 6789

Free tel advice, factsheets & website on home care, care homes and many related matters.

Turn 2 Us

www.turn2us.org.uk

Advice Line: 0808 802 2000

Help to access welfare benefits, charitable grants & financial help online, by phone via partners.

Appendix A

Answers to Task 1

1. Mrs Brown's main worry is organising and paying for the repairs to the home which she owns. She has seen an advert about equity release which made her think that this would be a good way to live in her home but no longer have to sort out the maintenance problems.

   Is she right about this?

Answer to Q1:
No, maintaining the property in good order after taking out equity release remains the responsibility of the owner occupier.

2. Mr Black lives in a large house which is worth £300,000. He owns this outright as a freeholder. He has been thinking about moving and has found a suitable flat which would cost about £190,000.

   He estimates that paying estate agents, solicitors, stamp duty, removals, redecorating and the improvement works that are needed on the flat will amount to about £45,000.

   How much equity will he have released by downsizing if he decides to go ahead with the move?

Answer to Q2:
Income from the sale would be £300,000
Outgoings are £235,000 (ie. £190,000 for the flat plus £45,000 for other costs)
He will be left with £65,000 of released equity to invest or spend as he chooses.

3. Miss Scarlett owns her flat without a mortgage but has limited income since her divorce. She is 48 and doesn't want to move, but has heard about equity release.
   Is this an option for her?

Answer to Q3:
No, she is too young. The majority of equity release schemes are only available to people over 55.

Even if she finds one which is available to people over 50, as the calculations which illustrate the cost of equity release in Part 2 show, she would need to be in an unusual situation for this to be a prudent course of action.

4. Mr Amber is 78 and needs advice about which equity release scheme would be best for him. He has no idea where to go for this. He lives in Taunton and can't travel too far.

   Create a list of possible specialist, regulated advisers.

Answer to Q4:
Use the search facility on the SOLLA www.societyoflaterlifeadvisers.co.uk and IFA www.unbiased.co.uk listing sites to find these.

Appendix B

Answers to Task 2

1. Mrs Cobalt is 83. She lives on a basic state pension, pension credit and council tax reduction (all means tested benefits). She has only £3,000 in savings. She is wondering whether to take out an equity release loan.

   What immediately springs to mind as an important factor that she needs to consider?

Answer to Q1:

Her entitlement to these welfare benefits could cease if she took out a significant lump sum and/or an annuity which resulted in a rise in weekly income. She would need to seek advice about the possible impact from an adviser who fully understood welfare benefits as well as equity release.

2. Mr Gold is 75 and in good health. He lives in a high value property in London but has quite a low income (State Pension and small Private Pension) just over the level at which he could claim means tested benefits (he has already looked into this). He has no children or close relatives to leave his property to. He definitely does not want to move home but he would like to have a few nice holidays and be able to live without worrying about the bills.

   What immediately springs to mind as factors that he needs to consider?

Answer to Q2:

As he is over the threshold for means tested benefits, taking out equity release which is a mix of a lump sum (to pay for the holidays etc.) and an annuity to give him extra weekly income will not affect entitlement.

He might wish to consider a lifetime mortgage. As he has no concerns about inheritance, and is not that young, he might consider a rolled up loan.

He should still get specialist advice to work out which type of equity release might best suit his situation.

3. Mr Silver is looking into taking out a rolled up lifetime mortgage. He is considering a loan of £45,000 - his home is currently worth £200,000. He is 69 and in good health. The scheme he is looking at is quoting a fixed interest rate of 9%.

   Using the table above, how much would his loan amount to in 10 years time ie when he is 79?

Answer to Q3:

£106,532

Appendix B

Answers to Task 2

4 Mrs Amber is 76yrs. She lives in a modest house which she owns worth about £150,000 with her disabled son who is 57yrs and who has never lived anywhere else. She is thinking about whether to take out equity release as the cost of living is so high and they could really do with more money.

What immediately springs to mind as factors that she needs to consider?

Answer to Q4:

The first step would be to check the income of both Mrs Amber and her son to ascertain whether they are in receipt of all the financial help to which they might be entitled. This may help to resolve their financial difficulties.

If it does not, one of the most important considerations with regard to taking out equity release is the plans that the family have for where Mr Amber is going to live in the event of Mrs Amber's death. What are their plans with regard to inheritance of the home? Taking out an equity release product which would be repayable upon her death (or if she herself had to move to a care home) could result in Mr Amber having to leave the property.

Specialist advice is needed to ensure that they understand all of the implications of taking out equity release.