# Equity release

## About this factsheet

Many homeowners , 55 years of age or older, consider releasing equity from their property in order to improve their financial situation; this factsheet helps to identify the various options available and important things to consider before making such an arrangement.

## What is Equity Release?

Equity release can help homeowners over the age of 55 to unlock cash from their home, in either a lump sum or in smaller amounts over time, or both. You can use the cash released for anything that you wish. You'll retain ownership of your home, and you can stay living in it for as long as you like. The loan is repaid from the sale of the property when you die or move into long term care.

## Eligibility criteria and conditions

There are usually certain conditions that you must meet in order to be eligible for an equity release scheme. They vary between providers but some of the most common are:

- You must be 55 or over, but some schemes may only be for the over 60s
- A maximum amount you can borrow or sell, typically 18% - 50% of the property value
- You must own your home and it must be of min. £70,000 in value
- You will be required to pay off any outstanding mortgage in full either from the equity you release, or from other funds
- You have to borrow a minimum amount of money , typically £10,000
- There may be restrictions on the type and condition of property acceptable to lenders

## What is Housing equity?

Your ‘housing equity’ is the market value of the home 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**: The amount of your housing equity therefore goes up and down as the market and house prices fluctuate, and also changes according to your outstanding mortgage or debts held on the property.

## Why might you consider equity release?

The equity release market has grown significantly over the past 20 years and can be a valuable option for unlocking capital, such as:

- Making repairs, improvements or adaptations to your home
- Repaying any outstanding mortgage/debts, if making your mortgage payments are a struggle or you are coming to the end of the term for an Interest Only mortgage and are unable to repay the outstanding capital
- Financial assistance to relatives and loved ones
- Meeting the cost of daily living
- Paying for care at home
- Purchase of annuities or care fee plans
- One off lifetime events, such as a special holiday or cruise or visiting relatives abroad
- Enabling you to keep your home if you are divorcing or separating from a partner.

However, before you make a commitment to equity release you may wish to consider if there are any other solutions, for example:

**Your Home Improvement Agency** can arrange for repairs and adaptations to be done and identify any available grants or charitable funding.

**A full benefits check** from your local *Citizens Advice Bureau* or *Age UK*.

**Paying for care** – Contact the *Adult Social Care* department of your local authority to request an assessment of needs and a financial assessment. The means test does not include the value of your home.

**Repaying outstanding debts** – Speak with a trained debt adviser at the *National Debtline* or your local *Citizens Advice Bureau* about possible arrangements to pay off or settle any debts.

**Reducing your expenditure** – Record your income and expenditure for a month and try to identify areas where you could save money.

**Sell your current home** – Could you sell and buy lower cost housing, live with family or move into rented housing?

**Other assets** – Do you have any other investments, such as stocks or shares, which you could make available?

## Equity Release Schemes

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.

## Types of Equity Release

### i) 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 table below).

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 either be a cash lump sum or generate an income.

**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.

**Home Income Plan (HIP)**
With a HIP, the lump sum released through the equity release buys 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 borrowed amount is repaid when your home is sold. The older you are when you buy an annuity, the higher the income you'll get.

## ii) Home Reversion

Home Reversion schemes involve selling your home (or part of it) to a company for a set proportion 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 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.

Once the scheme has started, the new owner benefits from any rise in the value of your home. If you have only sold part of your home, you benefit from any rise in the value of the part you have kept.

## WHAT CAN EQUITY RELEASE BE USED FOR?

The equity release market has grown significantly over the past 20 years and can be a valuable option for unlocking capital, such as:

- Repaying any outstanding mortgage/debts, if making your mortgage payments are a struggle or you are coming to the end of the term for an Interest Only mortgage and are unable to repay the outstanding capital
- Making repairs, improvements or adaptations to your home
- Financial assistance to relatives and loved ones
- Meeting the cost of daily living
- Paying for care at home
- Purchase of annuities or care fee plans
- One off lifetime events, such as a special holiday or cruise or visiting relatives abroad
- Enabling you to keep your home if you are divorcing or separating from a partner
- Getting you child on the property ladder

## Questions to ask before taking out equity release

The financial consequences of pursuing equity release must be carefully considered as it has the potential to cause difficulties in the future:

- How will borrowing a lump sum or increasing your income affect your entitlement to means tested benefits?
- How will borrowing a lump sum or increasing your income affect your tax liability?
- How will having an outstanding debt against your property affect your future housing options?
- Could you end up owing more than your property is worth?
- What will happen to anyone living with you when you die or if you move? – Will they lose their home?
- What happens if you die very soon after taking Equity Release –particularly a Home Reversion Plan?
- How will it affect the amount of money or property you can leave in your will?
- How will inflation affect the value of any fixed income you receive?
- What happens if you need long term care?
- How much does it actually cost to take Equity Release?

## Sale and Rent Back schemes

Sale and Rent Back (SRB) schemes are not equity release schemes and are usually offered to homeowners who are in financial difficulties and face repossession of their home.

With this type of arrangement, a firm buys your house, usually for less than market value, typically 70% to 80%, and then rents the property back to you at a market rent. You can use the cash to settle your existing mortgage and any arrears that you have while remaining in your home. Some companies may offer you an option of buying back the house later at the market value.

In most cases, these schemes do not guarantee occupancy for life. Your tenancy will be an assured shorthold tenancy which means that after the initial

fixed-term tenancy agreement you could be evicted and/or your rent may be increased to an unaffordable level.

SRB schemes are fully regulated by the Financial Conduct Authority. Rules imposed on providers include offering consumers, a fixed-term assured short hold tenancy of at least five years and requiring that firms ensure that the customer can afford the deal and that it is right for them.

## Regulation

Firms advising on or selling equity release schemes have to be regulated by the Financial Conduct Authority (FCA), the UK's financial services regulator, or be the agent of a regulated firm. Regulated firms and their agents are placed on the FCA Register and have to meet certain standards.

You should check that the adviser you use is on the FCA Register and that they have an equity release qualification to give advice. This means they have to meet certain standards and there are procedures to follow if things go wrong, including using the Financial Ombudsman.

Under new rules introduced in April 2014, all firms offering Equity Release products must offer you advice. This means making sure Equity Release is right for you and, if it is, only recommending a product that is suitable for you based on your needs and circumstances.

There are some lifetime mortgages where you will have to pay the interest on the loan and/or the capital every month. If this is the case, the new lending rules mean equity release providers will also have to check that you can afford these regular repayments. You will have to show evidence of your income, such as pension statements and bank statements, and your outgoings, including other debt repayments, household bills and living costs such as travel, clothing, and entertainment.

## Equity Release Council members

Many lifetime mortgage and home reversion providers are members of the Equity Release Council. The Equity Release Council members agree to abide by a voluntary code of practice which aims to ensure that member companies provide clearly explained written information about the benefits, objectives and limitations of their schemes.

You are guaranteed not to lose your home; your legal work will always be carried out by the solicitor of your choice; and you will be offered a ‘no negative equity’ guarantee. See the useful organisations list at the back of this factsheet for the contact details of the Equity Release Council.

Equity Release Council
Celebrating 30 Years of Setting Standards

## SEEK INDEPENDENT FINANCIAL ADVICE

Equity release is a big financial decision. You must speak to a qualified equity release adviser before you can release equity tied up in your home.

We would strongly advise that you or your family member seeks Independent Financial Advice (IFA) before committing to an Equity Release product. Financial advisers are regulated by the Financial Conduct Authority (FCA). Your financial adviser has to be a member of the Equity Release Council (ERC) and they adhere to their strict code of conduct.

OneFamily Advice are a member of the ERC and their advisers are salaried rather than working on commission, so only have your best interest at heart. They make the equity release process as simple as possible, helping you decide if releasing equity is the right decision for you and ensuring you find the right product for your needs.

**To find out more visit our website** or contact us on 0800 144 8242.

## Useful organisations

**OneFamily Advice**
Whole-of-market lifetime mortgage advisers, members of the Equity Release Council
Tel: 0800 144 8242
Web: www.onefamily.com/equity-release

**EAC Advice**
www.housingcare.org
Free advice & information about all aspects of accommodation, care & support for older people.
**0800 377 7070**
Email: enquiries@eac.org.uk

**Equity Release Council**
www.equityreleasecouncil.com
Tel: 0300 012 0239
An industry body that represents equity release providers that have signed up to its code of practice.

**Society of Later Life Advisers**
societyoflaterlifeadvisers.co.uk
Members have to meet a level of professional standards, including undertaking specialist training.

**Independent Financial Advisers (IFA)**
Listed on: www.unbiased.co.uk

**Age UK**
www.ageuk.org.uk
Tel: 0800 055 6112
A charity which offers a wide range of free information for older people.

**Which?**
Web: www.which.co.uk
Offers independent advice to enable consumers to make informed decisions about services and products.

**Citizens Advice (CAB)**
Web: www.adviceguide.org.uk
Local CAB provide free advice on a wide range of subjects.

**Home Improvement Agencies** (Find in our directory)
Tel: 0300 124 0315
Organise & carry out home repairs and adaptations, and can advise on financing the work.

**Independent Age** www.independentage.org.uk
Tel: 0800 319 6789
Free advice on home care, care homes and many related matters.

**Turn 2 Us**
Web: www.turn2us.org.uk
0808 802 2000
Help to access welfare benefits, charitable grants & financial help.

## About EAC Information and Advice

**Elderly Accommodation Counsel (EAC)**
We are a national charity that aims to help older people ensure their home will meet their needs and lifestyles as they age.

Our website www.HousingCare.org contains a huge amount of useful information, whether you want to plan for 'staying put' successfully or are considering moving home.

We also offer a free information and advice service to answer questions, talk about any help or care needs, and advise on the costs of housing or services and how to meet them.

**EAC Advice**
Provided in partnership with Bassetlaw Action Centre and supported by the OneFamily Foundation

Tel: **0800 377 7070**
Email: enquiries@eac.org.uk
Hours: 9am - 3pm, Monday – Friday