Equity release

Deciding whether equity release is right for you

AgeUKIL6

Information written with you in mind.

This information guide has been produced with the help of older people, carers and expert peer reviewers.

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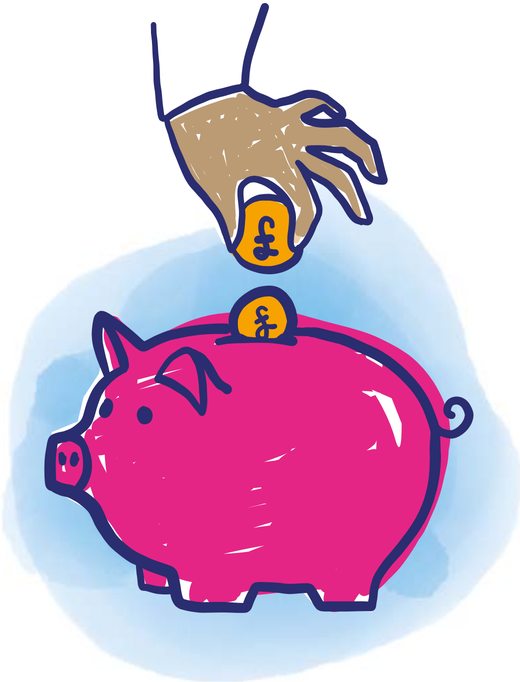


What this guide is about

As we get older, lots of us start to think about how we'll manage financially. You might be considering equity release as a way of easing money worries – but is it your best option?

Equity release is a big decision and it can create more problems than it solves. You might have other, better, options – so it's important you don't rush into anything.

This guide explains what equity release is, how it works, and where to get advice to help you decide if it's right for you.

"I wish I'd got advice before I took my plan out. It would've saved a lot of trouble further down the line."

Carol, 74

Equity release might seem like the answer, but there are risks. This guide takes you through some of these risks and points you in the right direction for further advice.

As far as possible, the information in this guide is applicable across the UK. This symbol indicates where information differs for Wales and Northern Ireland.

Next steps

It's a good idea to find out the number for your local council. They'll be able to provide a lot of the support and information mentioned in this guide.

My local council phone number is:

Thinking about equity release

Equity release can be complicated, so it's important to get your head around it before making any decisions. This section explains what equity release is, who it's available to, and where you can get advice.

What is equity release?

Equity release is a way of accessing some of the money tied up in your home without having to move.

But it's not as straightforward as it might first seem. Before you take out equity release, it's important to know exactly what it involves, what the risks are, and what other options you have.

Next steps

See pages 11-15 for more information about the different types of equity release, and the pros and cons of each.

There are two main types of equity release:

- A **lifetime mortgage** is the most common type. Like a traditional mortgage, it's a loan secured against your home – but the money doesn't usually need to be repaid until you die or move into permanent care. You can also 'roll up' the interest due on the loan until this point, but this can mean the amount you owe grows very quickly (see page 11).
- A **home reversion plan** allows you to sell part (or all) of your home while you stay living in it. The reversion company then gets a share of the proceeds when your home is sold – usually after you die or move into permanent care. They don't pay you market rate though, so your **estate** might be reduced a lot if you die shortly after taking out the plan.

Your **estate** is everything you own – including your money, property, possessions and investments.

There are things you should think about before taking out equity release, including:

- Are there other, less risky ways you could boost your income? Find out more on pages 18-21.
- How would releasing equity affect your benefits? See page 17 for more information.
- How would it affect your eligibility for means-tested social care – or the amount you pay if and when you need it?
- Would it affect your ability to move in the future? Most providers let you transfer a product when you move – but they might not if you're moving to age-restricted or leasehold retirement housing, for instance.
- If you have children, how do they feel about it? While the final decision is yours, you might still want to discuss it with family.

Who is equity release available to?

Whether equity release is an option for you depends on a few different things.

Your age

For a lifetime mortgage, you (or both of you if you're borrowing jointly) need to be at least 55 years old.

For a home reversion plan, you (or both of you) need to be at least 60 years old. Your age also affects the maximum amount you can borrow or the share you can sell.

Your family

Equity release can be complicated if you live with any dependants. To stay living in the property with you, they might need to sign a waiver confirming they understand they don't have the right to continue living in the property if you die or move into permanent care. It's a good idea for any dependants to get legal advice of their own too.

Equity release could also affect someone coming to live with you in the future. If a family member or friend moves in, they'll need to sign a waiver releasing any rights to the property. They should get legal advice before doing this.

Similarly, if a partner moves in after you take out equity release, you might not be able to transfer the product into your joint names.

If you and your partner take out equity release together, your partner might end up having to pay off the lifetime mortgage or home reversion if you die or move into permanent care – which could mean selling or giving up the home.

Your home

You must own your home, and it must be your main residence. There are specific criteria that tend to vary between equity release providers – but in general, the property must be in a reasonable condition and over a certain value. Certain types of property may not be accepted, so it's worth checking this.

Good to know

You might still qualify for equity release if you have a mortgage or other loan secured against your property – but it'll depend on the value of your home and the amount you owe. Any outstanding mortgage or secured loan will need to be cleared at the same time as taking out equity release, either by using money you release or by other means, such as savings.

Seeking legal and financial advice

When thinking about equity release, it's tempting to get caught up in what can feel like a quick and easy financial boost. But it's important to consider your other options and think about how releasing money might affect you – both now and in the future. Get independent advice from an equity release specialist to help you decide what's best for you.

All firms selling equity release must offer advice, but it's a good idea to find your own adviser who:

- is authorised by the Financial Conduct Authority (FCA)
- is qualified and experienced in giving equity release advice
- isn't restricted to recommending products from just 1 or 2 firms.

The Equity Release Council (page 24) has a directory of financial advisers with equity release experience. These advisers are all members of the Council, which means they've agreed to meet certain rules and standards (see page 16).

The Equity Release Council also has a member directory of solicitors with equity release experience. You'll need a solicitor to carry out the legal work involved in taking out equity release – and it's a good idea to choose one who acts only on your behalf, rather than one recommended by the company providing equity release.

Alternatively, the MoneyHelper website (page 25) has a directory of retirement advisers which you can use to find equity release specialists in your area. Retirement advisers can also advise on possible alternatives to equity release – such as savings and investments.

Different types of equity release

There are two main types of equity release: lifetime mortgages and home reversion plans.

Lifetime mortgages

A lifetime mortgage is the most common type of equity release. It's a kind of loan secured against your home. It allows you to release tax-free money from the value of your property.

The maximum loan depends on your age, the value of your property and, in some cases, your health. It means:

- you continue to live in and own your home
- you continue to maintain, run and insure your home
- the loan doesn't typically need to be repaid (normally from the proceeds of the sale of your home) until the last borrower dies or moves into permanent care
- interest will be added to the loan, which will increase the amount you owe and reduce the amount of equity you have in your property. This is usually **rolled up** until the loan is repaid, but you can also make regular payments towards the interest – see our **Equity release** factsheet for more information.

Rolled up interest means that, while you don't have to make regular interest payments, you'll end up paying interest on the interest. This means the amount you owe can increase very quickly.

Advantages of a lifetime mortgage:

- You can get a tax-free lump sum as well as smaller, regular payments to supplement your income in retirement. Also, you can usually continue to live in your home until you die or move into permanent care.
- You continue to benefit from any rise in the value of your property. However, this might be outweighed by the amount of rolled-up interest that's due when the loan is repaid.

Disadvantages of a lifetime mortgage:

- It'll reduce the value of your estate and the amount that goes to the people named as beneficiaries in your will.
- If you decide to repay the product early, there could be a substantial early repayment charge. Your adviser should explain this to you when you take out the mortgage.
- Getting a lump sum or taking extra cash to boost your income could reduce your entitlement to means-tested benefits, now or in the future (see page 17). You might need to start paying, or find yourself paying more, for any care services you receive.
- Equity release might work out more expensive in the long term than downsizing to a cheaper property. Also, if your needs change after taking out equity release, there might not be enough equity left in your property to downsize.

Payment Term Lifetime Mortgages

A Payment Term Lifetime Mortgage (PTLM) is a hybrid of traditional equity release and a capital and interest mortgage. It's a new kind of product for people aged 50 and over.

If you take out a PTLM, you borrow some of the value of your home while you're still living there as a tax-free cash sum. You must then pay off the interest in instalments for a set payment term – after this, the interest rolls up (see page 11) for the life of the loan. As with other types of lifetime mortgage, the money is usually repaid from the sale of your home when you die or move into permanent care.

You can choose how long you want to make interest payments for – this can be up to the date you retire if you're currently employed, or up to the age of 75, whichever comes first. This might mean you can borrow more than you could through other lifetime mortgages.

An advantage of a PTLM is that you pay monthly interest, so roll-up is delayed – this means you owe less to the mortgage company when you repay.

A disadvantage is that you have to maintain interest payments, or else your property could be at risk of repossession. This means a change in your circumstances could put you in a more difficult position than if you'd taken out a roll-up product.

Good to know

Always look for a 'no negative equity guarantee' from lifetime mortgage providers. This means when the property is sold, you or your estate won't have to repay more than the sale proceeds – even if they're less than the amount owed.

Home reversion plans

A home reversion plan involves selling all or part of your home to a reversion company in return for a tax-free lump sum or a smaller sum with following payments. It means:

- You no longer own your home, or you only own a part-share of it. But you receive a lease, giving you the right to live there rent-free (or sometimes paying minimal rent) for your lifetime or until you move into permanent care. This is reflected in what the company pays for their share of your home. Your solicitor should check the terms of the lease with you.
- When the property is sold (usually after your death or if you move into permanent care), the reversion company receives some or all of the proceeds of the sale, depending on what share of your home you sold. For example, if you sold a 50% share of your home, the reversion company receives 50% of the proceeds when it's sold.
- You continue to be responsible for insuring, maintaining and running your home.

Advantages of a home reversion plan:

- You can get a tax-free lump sum as well as taking cash to supplement your income in retirement, and you have the right to live in your home rent-free (or with minimal rent) until you die or move into permanent care.
- As it isn't a loan, there isn't any interest to pay.
- If you haven't sold 100% of your property, you, or your estate, will continue to benefit from any rise in its value. You know what share of your home you can leave to your family – although you don't know the value of that share.
- You can usually release more money than you can through a lifetime mortgage.

Disadvantages of a home reversion plan:

- It'll reduce the value of your estate and the amount that will go to the people named as beneficiaries in your will.
- The reversion company owns all or a part-share of your home. They don't pay you the full market price for their share, because they give you the right to live there, potentially for many years, while paying low or no rent.
- If you die or move into permanent care soon after taking out a reversion plan, you may have effectively sold off your home (or a part of it) cheaply. Some plans give your family a rebate if you die shortly after signing up.
- Your entitlement to means-tested state benefits may be affected – now or in the future (see page 17). You might need to start paying, or pay more, for care services you receive.
- Home reversion plans can be repaid, but the property would need to be bought back from the reversion company at the full market value.

Next steps

If you're considering equity release, talk to a specialist adviser. They'll review your personal circumstances and see if there are any possible alternatives. If equity release is the right option for you, they'll provide a recommendation of the type that suits you best. See page 10 for advice about finding the right help.

The risks of equity release

Equity release can cause more problems than it solves, so it's important to carefully consider the risks.

Using a trusted provider

If you're seriously considering equity release, you should make sure you deal with a provider you can trust.

Any company advising on or selling equity release has to be regulated by the FCA (page 24). This gives you a level of protection and means you can access the Financial Services Compensation Scheme if you ever need it.

You should choose a product from a company that belongs to the Equity Release Council (page 24). Members all agree to follow a voluntary code of conduct, which includes certain product standards. Meeting these standards means:

- you can live in your property for life, or until you move into permanent care, as long as you stick to your contract
- you can move your plan to a different property (providing it's acceptable to the equity release product provider)
- you'll never owe more than the value of your home when it's sold after you die or move into permanent care
- for lifetime mortgages, the rate of interest you pay has to be fixed for each release of funds – or if you have a variable interest rate, the rate has to be capped for the life of the loan
- for lifetime mortgages, you can make penalty-free repayments on your loan, as long as it meets the criteria of your equity release provider.

If something goes wrong with your plan, contact your provider first. They'll have a complaints procedure. If you're not satisfied, contact the Financial Ombudsman Service (page 24).

How it could affect your benefits

Any means-tested benefits you receive could be reduced or lost entirely, depending on your circumstances and the type of equity release. These include:

- Pension Credit
- Jobseeker's Allowance
- Income Support
- income-related Employment and Support Allowance
- Universal Credit
- Council Tax Reduction or paying for care services.

A specialist equity release adviser should be able to work out what would happen to your benefits if you took out equity release. If they don't know enough about means-tested benefits to tell you this, they must refer you to an organisation like Citizens Advice (page 24) or the Pension Service (page 25).

Make sure the adviser considers your current and future care arrangements too. Think over their advice carefully – and don't be afraid to get a second opinion if you're unsure.

It's important to consider the potential impact of equity release on benefits you might need to claim in the future too. Our factsheet **Equity release** has more detail about this.

Next steps

Visit **www.ageuk.org.uk/benefits-check** to use our free and simple benefits calculator to find out what you might be entitled to.

Thinking about other options

Equity release might seem like a good solution – but it's a big decision and you should consider all your options first.

Here are some other options that could suit you better:

- Do you have other investments or assets that could boost your income or give you a lump sum? A financial adviser should be able to help you look at all your options.
- Could you move to a less expensive property?
- Are you entitled to any benefits? You can arrange a benefits check at your local Age UK or Age Cymru or use our online benefits calculator at **www.ageuk.org.uk/benefits-check**. You could be entitled to more than you think.
- Are family or friends able to provide financial support?
- Could you rent out a room in your home? Bear in mind you might have to pay tax on rental income over a certain threshold, and your entitlement to means-tested benefits and care funded by the local council could be affected.
- Can you find any ways to save? If you need help with managing your money, contact an advice agency like StepChange Debt Charity (page 26).
- If you need repairs, adaptations or equipment to help you live independently, have you checked if you're eligible for financial help from your local council or Home Improvement Agency, or Care and Repair Cymru in Wales?
- Depending on your health and other personal circumstances, could you consider a part-time job?

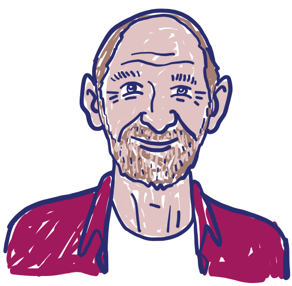
If you currently have a mortgage outstanding but you're having difficulty meeting your monthly payments, contact your mortgage lender to talk through your options. Your lender should make reasonable attempts to reach an agreement with you. If you have an interest-only mortgage coming to an end which you're struggling to pay off, contact an advice agency (see pages 24-26).

Before making any decisions about equity release, you should get financial advice. If you decide to go ahead with it, you'll also need legal advice during the process. See page 10 for more information on seeking the right advice.

There might be other options that could provide you with money from your property. You should consider all your options before signing up to any of them.

"After talking to Age UK, I met with a financial adviser to discuss the best options for me."

Steven, 65



Part-exchange

Some developers allow you to part-exchange your existing property for a retirement home. This enables you to move without the hassle of selling your property – but the developer does take a percentage of its value.

Lifetime lease plan

This allows you to purchase the right to live in a property for the rest of your life. It isn't a mortgage, loan or equity release.

Instead, you buy a lifetime lease from a company, who would then have control of the property when you die or move into permanent care. It's a good idea to get independent legal advice if you're thinking about this.

Sale and rent back

This is when a firm buys your house for less than market value and rents it back to you. While this might sound similar to a home reversion plan (see page 14), there are key differences.

With home reversion, you continue to live in your property under a lease – which usually gives you the right to stay there for life. With sale and rent back, you're given a tenancy with little protection against eviction or rent increases.

Your rent is a market rent, which is usually much higher than the low (or no) rent charged by home reversion companies. There are also specific Housing Benefit rules about paying rent for a property that you used to own.

Be cautious before agreeing to this – and take independent legal advice if it's something you're considering. Make sure that any provider is authorised and regulated by the FCA (page 24).

Next steps

See our factsheet **Equity release** for more information.

For further guidance, contact Citizens Advice, StepChange Debt Charity or the National Debtline. In Northern Ireland, contact the Housing Rights Service. See pages 24-26 for contact details.

Frequently asked questions

Will I lose out on state benefits if I release equity?

Any means-tested benefits you receive might be reduced or lost entirely. This will depend on your circumstances and the type of equity release you choose.

Can I move house in the future?

You might be able to transfer your equity release product to a different home – as long as it can act as acceptable security to the provider. Leasehold retirement housing might not be acceptable. If your new home is worth less than the old one, you might have to repay some of the outstanding mortgage.

I already have a mortgage, can I still apply?

It'll depend on the value of your home and the amount outstanding on the existing mortgage, which will have to be cleared at the same time as taking out equity release.

Will I be able to leave an inheritance to my family?

It depends on the product. With some you can 'protect' a part of your property for your beneficiaries.

Will I owe more than my home's value when it's sold?

Products that meet the Equity Release Council's standards assure that if you die or move into permanent care, you or your estate won't repay more than the money from the sale.

Could a relative, carer or new partner move in?

Yes, but they might not have the right to stay living there if you die or move into permanent care. They'll have to sign a waiver to show they understand this.

Can I make repayments?

If you take out a plan that meets Equity Release Council standards (see page 16), you're typically allowed to make repayments of up to 10% per annum without penalty.

Useful organisations

Age UK

We provide information and advice for people in later life through our Age UK Advice Line, publications and website.

Age UK Advice: 0800 169 65 65
Lines are open seven days a week from 8am to 7pm.
www.ageuk.org.uk

In Wales, contact Age Cymru Advice: **0300 303 44 98**
www.agecymru.org.uk

In Northern Ireland, contact Age NI: **0808 808 7575**
www.ageni.org

In Scotland, contact Age Scotland: **0800 124 4222**
www.agescotland.org.uk

Citizens Advice

National network of centres offering free, confidential and independent advice, face-to-face or by telephone.
In England, call Adviceline: **0800 144 8848**
In Wales, call Advicelink: **0800 702 2020**

For online information and to find your local centre:
England: **www.citizensadvice.org.uk**
Wales: **www.citizensadvice.org.uk/wales**
Northern Ireland: **www.citizensadvice.org.uk/about-us/northern-ireland**

Equity Release Council

Trade association for equity release providers and advice firms that comply with product standards and principles. Provides a list of members and free information about equity release.
Tel: **0300 012 0239**
www.equityreleasecouncil.com

Financial Conduct Authority (FCA)

Regulates financial services in the UK.
Tel: **0800 111 6768**
www.fca.org.uk

Financial Ombudsman Service

Helps settle disputes between consumers and financial organisations.
Tel: **0800 023 4567**
www.financial-ombudsman.org.uk

Foundations

National body for Home Improvement Agencies (HIAs) and handyperson schemes.
Tel: **0300 124 0315**
www.foundations.uk.com

In Wales, contact **Care and Repair Cymru**
Tel: **02920 107580**
www.careandrepair.org.uk

Housing Rights Service

Offers help and advice on housing issues to people in Northern Ireland.
Helpline: **028 9024 5640**
www.housingrights.org.uk

Law Society of England and Wales

Independent professional body for solicitors in England and Wales.
Tel: **020 7242 1222**
www.lawsociety.org.uk/for-the-public

Law Society of Northern Ireland

Independent professional body for solicitors in Northern Ireland.
Tel: **028 9023 1614**
www.lawsoc-ni.org

MoneyHelper

Service providing information and guidance on money management. You can search for a financial adviser through their retirement adviser directory.
Tel: **0800 138 7777**
www.moneyhelper.org.uk

National Debtline

Provides free, confidential and independent advice on how to deal with debt problems in England and Wales.
Tel: **0808 808 4000**
www.nationaldebtline.org

Pension Service

Government service that can give you information about your State Pension. Contact them to report a change in your circumstances.
Tel: **0800 731 0469**
www.gov.uk/contact-pension-service

Personal Finance Society

Website you can use to start your search for a qualified financial adviser.
www.thepfs.org

StepChange Debt Charity

Charity providing debt advice. It can help you set up a debt management plan.
Tel: **0800 138 1111**
www.stepchange.org

Help us be there for someone else

We hope you found this guide helpful. When times are tough, it's so important to get some support. Did you know you could help us reach someone else who needs a little help? Here's how:

1. **Give your views on guides like this**
Our Readers' Panel helps make sure the information we produce is right for older people and their families. We'd love you to join. Go to **www.ageuk.org.uk/readers-panel**.

2. **Donate to us**
Every donation we receive helps us be there for someone when they need us. To make a donation, call us on **0800 169 8787** or go to **www.ageuk.org.uk/donate**.

3. **Volunteer with us**
Our volunteers make an incredible difference to people's lives. Get involved by contacting your local Age UK or at **www.ageuk.org.uk/volunteer**.

4. **Campaign with us**
We campaign to make life better for older people, and rely on the help of our strong network of campaigners. Add your voice to our latest campaigns at **www.ageuk.org.uk/campaigns**.

5. **Remember us in your will**
A gift to Age UK in your will is a very special way of helping older people get expert support in the years to come. Find out more by calling **020 3033 1421** or visit **www.ageuk.org.uk/legacy**.

What should I do now?

You may want to read some of our relevant information guides and factsheets, such as:

- **Housing options**
- **More money in your pocket**

You can order any of our guides or factsheets by giving our Advice Line a ring for free on **0800 169 65 65** (8am-7pm, 365 days a year).

Our friendly advisers are there to help answer any questions.

All of our publications are available in large print and audio formats.

There's plenty of really useful information on our website, too. Visit **www.ageuk.org.uk/moneymatters** to get started.

If contact details for your local Age UK are not in the below box, call Age UK Advice free on **0800 169 65 65.**

0800 169 65 65
www.ageuk.org.uk

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