the Money Advice Service®

# Equity release schemes

## Raising money from your home

# How equity release schemes work

**The equity (value) you have in your home is its open market value less any mortgage or other debt held against it. Equity release is a way of getting cash from the value of your home without having to move out of it.**

You are more likely to be able to make use of an equity release scheme if you have no current mortgage, or if any mortgage you have is relatively small.

There are two main types of equity release scheme – **lifetime mortgages** and **home reversions**.

You may come across sale-and-rent-back schemes. Watch out as they are **not** a type of equity release scheme – see page 19.

See the *Jargon buster* on page 23 for an explanation of some of the words you may come across.

**Equity release schemes are complex and you should always consider taking professional financial advice before making any commitment.**

## Key points

**With an equity release scheme, you:**

- have to be over a certain age (usually over 55) and own your own home
- can get a cash lump sum, a regular income, or both, to use as you wish
- continue to live in your own home, and
- continue to be responsible for maintaining your home.

## With a lifetime mortgage you:

- take out a loan that is secured on your home (that is, the lender can get their money back by selling your home)
- continue to own your home, although you will have to pay back the mortgage on it plus the interest charged by the lender, and
- repay the mortgage from the proceeds of the sale of your home when you die, or if you move out of it (perhaps to a care home).

See page 5 for more information on lifetime mortgages.

## With a home reversion you:

- sell all or part of your home to a reversion company or an individual, and
- no longer own all or part of your home, but continue to live there as a tenant of the reversion company or individual.

The home is sold when you die, or if you move out of it (perhaps to a care home).

See page 6 for more information on home reversions.

## How do you get your money?

You will normally get your money as a cash lump sum to use as you wish.

However, if you want to top up your income, you have various options:

- You can invest the lump sum in an annuity or some other investment to provide a regular income (with some schemes the provider does this for you).
- Instead of a single lump sum, your scheme may provide a regular cash amount that is not linked to an annuity or investment.
- Other schemes provide smaller cash sums you can take regularly or only when you need them (called 'drawdown') – see page 5.
- Some schemes combine these features. For example, you can take a lump sum at the start, and then draw down cash later.

# Where to get help

## General help

From budgeting to borrowing, from savings to pensions, our trained Money Advisers can help you with your questions. We offer free unbiased information and money advice which means we won't sell you anything. You can get this in print, online, over the phone and face to face.

We also provide tailored advice to help you make choices at key points throughout your life whatever your circumstances. Take our online **health check**. Answer some straightforward questions and get your personal action plan to help you with your money must-do's and longer-term goals.

Call us on 0300 500 5000 or go online at moneyadviceservice.org.uk/healthcheck.

## Equity release help

You can find advisers on the high street or online. Make sure they're regulated by the Financial Services Authority (FSA), the UK's financial services regulator, or are agents of regulated firms. This means they must meet certain standards the FSA sets so you can get the advice or information you need to help you make an informed choice – see page 11.

## Key points

**Equity release schemes can be helpful but they are not suitable for everyone. You may consider these alternatives if you need money:**

- Selling your current home and buying a smaller property – you'd keep full ownership of your new home and avoid paying interest on a loan.
- Contacting your local council or other organisation to check if you could claim money to pay for home repairs or improvements – see *Useful contacts* on page 24.
- Claiming any state benefits you may be entitled to – see *Useful contacts* on page 24.
- Tracing any private pensions or investments that you may have lost track of – see *Useful contacts* on page 24.
- Using your savings or selling any investments – but consider getting professional financial advice before doing so – see *Useful contacts* on page 24.

# Key things to think about

## Getting financial advice

Firms selling or advising on equity release schemes must usually be regulated by the Financial Services Authority (FSA). This means they have to meet certain standards that the FSA monitors, and it can take action if they don't.

Firms' advertisements, product brochures and other literature must be clear, fair and not misleading. You can check the FSA Register to see if a firm is regulated – see *Useful contacts* on page 24.

In addition, you will have access to the Financial Ombudsman Service and the Financial Services Compensation Scheme if things go wrong – see page 22.

Some home reversion providers don't need to be regulated by the FSA. If you're offered a product from one of these firms, the adviser should explain to you about the protection you will not have.

### Information or advice

When you ask about equity release schemes, the person you speak to will usually describe the product or service to you. You'll also receive printed information. This is general information – not advice specific to your needs and circumstances.

If you are uncertain about which equity release scheme is right for you, then consider getting professional financial advice.

### Buying with professional advice

FSA-regulated firms must only recommend schemes that are suitable for you and take into consideration your needs and circumstances. This includes checking how a scheme will affect your tax bill and entitlement to benefits.

They should set out the advantages and disadvantages of particular features equally. For lifetime mortgages, the firm must give you the Annual Percentage Rate (APR) whenever it provides any price information; and if there's a fee for advising on or arranging your lifetime mortgage, the firm must quote the actual or typical fee.

To find a professional financial adviser specialising in this field see *Useful contacts* on page 24.

## Information you will get

They should give you two documents with the keyfacts® sign. These documents contain important information that you should read and understand. The first will explain the service being offered (advice or information); whether you'll have to pay for it; and the product range they offer.

The second (often referred to as the Keyfacts illustration or KFI) will be prepared specifically for you, summarising the important risks and features of the particular scheme.

Because firms must prepare these documents in similar ways, you can use them to shop around and compare different services and schemes. Use them to make sure the deal you get is right for you.

## Buying without advice

You don't have to take advice, but if you don't and the scheme you choose turns out to be unsuitable you will have fewer grounds for complaint.

# Prepare yourself

Before starting a particular equity release scheme, it's worth asking yourself or a financial adviser a few questions. For example:

- **Could it affect your income tax position and entitlement to state benefits?** For example, a scheme may reduce your entitlement to state benefits, leaving you less well off than you first thought.
- **Could it restrict your options in the future?** For example, owing money to an equity release company could leave you short of capital if you wanted to move to a smaller property, or use money from selling the property to pay for long-term care in a private care home. Taking out an equity release scheme could also restrict your access to any deferred payment scheme that a local authority may offer for meeting the costs of long-term care.
- **If you are investing the lump sum to provide an income:**
  - will the income be fixed or will it vary?
  - will the level of income be guaranteed or depend on how your investment grows?
  - could you lose the lump sum invested?

- **You should also compare the return on your investment with:**
  - the interest rate you will be paying on the lifetime mortgage, or
  - in the case of a home reversion, how much less than the market value you will get – will the return on your investment make up for the cost of selling your home?

Remember that using an equity release scheme to provide money to invest carries a high risk.

If you are considering releasing money to put in a bank account or savings account for emergencies, any interest you will get will probably be less than the cost of releasing money from your home – so you'll be losing money.

- **How might it affect the amount of money you will be able to leave to your beneficiaries** – the people who benefit from your estate when you die?
- **How would inflation affect the value of any fixed income you receive?** £100 will buy more today than £100 in ten years' time.

## Fees and costs

Here we cover some of the costs and fees you can expect to pay. Make sure you ask for illustrations or quotations that set out the exact costs.

- **Arrangement fee:** up to £750. You may also have to pay an application fee.
- **Valuation fee:** linked to the value of the property, but probably around £200 for a property valued at £250,000.
- **Legal costs:** £300 to £700.
- **Buildings insurance:** £200 to £300 per year, depending on the property.
- **Early repayment charge:** if you repay your lifetime mortgage before the end of the contract (for example, before you die or go into care) you may have to pay an early repayment charge. Different lenders may calculate these charges differently, so the amount you pay may also vary.
- **Possible rental charges:** with a home reversion you may have to pay rent, but often this is only a minimal amount.

With a **lifetime mortgage** some of these costs can be added to the loan so although you pay less upfront, you pay interest on any amounts added.

If you decide to borrow more in future under a drawdown arrangement, your lender may charge extra lending fees.

## When considering an equity release scheme

You will have many things to think about if you want to consider an equity release scheme. This summary and the **Your questions answered** section on page 18 cover many of them.

| | Lifetime mortgages | Home reversions |
|---|---|---|
| **If you decide to move** | Most lifetime mortgages can be transferred if the new property is acceptable to the lender.<br><br>If you are moving to a lower-value property, you will usually have to repay part of a lifetime mortgage.<br><br>If you cannot transfer the scheme, you will have to repay the whole mortgage from the proceeds of selling your property.<br><br>Think carefully about the effect of the roll-up of interest. The amount you have to pay back could be quite high and you may have less than you expected to buy a new property with.<br><br>If you repay the loan early, you may also face early repayment charges.<br><br>You should check with the lender for any restrictions on moving. | Some home reversion plans can be transferred if the provider is willing to accept the new property.<br><br>If you cannot transfer the scheme, you will have to buy back the property (or share of the property) from the provider and this could be very expensive. You may then have too little money left to buy a new property. |

| | | Lifetime mortgages | Home reversions |
|---|---|---|---|
| | **If you owe more than the property is worth** | With a roll-up mortgage, the original loan and the added interest can grow very quickly. If the total rises to more than the value of your property, this results in 'negative equity', where you owe more than your home is worth. This could mean that:<br>■ the lender may ask you to start paying interest during your lifetime, because by then the loan could be very large, or<br>■ after your death, your beneficiaries would have to repay the extra above the value of your property from your estate.<br>However, most lifetime mortgages offer a 'no-negative-equity guarantee'. This is a promise that your beneficiaries will never have to repay more than the value of your property – so do check to see if the scheme has this feature.<br>Some schemes also have a fixed or capped interest rate, or a fixed repayment amount – so that you know in advance the maximum amount you could owe at any given time. | Does not apply |

## When considering an equity release scheme

| | Lifetime mortgages | Home reversions |
|---|---|---|
| **Risk of losing your home –** we set out the main reasons why you could lose your home, though the company would normally give you notice and time to put the problem right. | If you can't pay the interest (and payments are required). | If you can't pay the rent or you break the terms of the lease.<br><br>Check the lease carefully to make sure you understand the terms and conditions. |
| | There may be other reasons that are the same for lifetime mortgages and home reversions. For example, if you do not maintain the home well enough. | |
| **If you decide to cancel** | You can pay off a lifetime mortgage at any time but there is likely to be a charge and this may be high. Find out from your lender what you have to pay. | In very limited circumstances a home reversion can be cancelled, but this could be very expensive. |
| **If you decide to switch deals** | As with standard mortgages, you may be able to switch your lifetime mortgage to take advantage of falling interest rates and a better deal. However, to do this you may have to pay an early repayment charge and this may cancel out any benefit you may get from switching. | Does not apply. |

| | | Lifetime mortgages | Home reversions |
|---|---|---|---|
| | **If you die soon after taking out a scheme** | Most lenders would charge interest until your property was sold and the mortgage was repaid in full.<br><br>With a fixed-repayment mortgage, the higher fixed sum to be paid to the lender becomes due when you die. This could be quite an expensive deal, but in some agreements the lender may reduce the amount if you die in the first few years. If you want to take up this option, the maximum you can borrow will be less. | The reversion company would take the percentage that was due from the sale proceeds of the property, so – depending how much you originally received – it could be quite an expensive deal. |
| | | Schemes that provide income may involve buying an annuity. The total income paid out will depend on how long you live, so if you don't live long, the scheme will be poor value. Some schemes do offer 'capital protection', so your beneficiaries get back a lump sum if you die within a few years of taking out the scheme. You pay for this option by taking less income. | |

# Your questions answered

## Question:

### What happens to my partner if I die?

## Answer:

If the scheme is in both your names, the arrangements will continue.

If you are using equity release to improve your income, make sure you consider what the situation would be if you or your partner were to die.

If the property and scheme were in your sole name, the property would have to be sold and your partner would have to find somewhere else to live (unless, for example, they could repay the lifetime mortgage in full).

## Question:

### Is there a minimum amount I have to take?

## Answer:

There may be a minimum amount you have to take. This could be, say, £15,000 or £25,000. It will depend on the scheme and provider. But you may not have to take it all at once. Drawdown loans can be taken in smaller amounts over time.

## Question:

### Would an equity release scheme reduce the amount of inheritance tax due on my estate after my death?

## Answer:

An equity release scheme will reduce the value of the estate you leave when you die so this may reduce any inheritance tax. But if you are thinking of using an equity release scheme as part of your planning for inheritance tax, it's best to seek professional financial advice.

## Question:

### Who would be responsible for maintenance costs in the home?

## Answer:

You will be responsible for keeping the home in good repair. If you don't maintain the home, the scheme provider could arrange the necessary repairs and you would have to pay for them.

## Question:

## What happens if I or my partner needs long-term care?

## Answer:

Your equity release scheme will usually carry on unchanged if care is provided in your own home or just one of you moves to a residential or nursing home.

If you both move into a care home, the scheme will usually end and the property will be sold.

## Question:

## What about changes in my circumstances?

## Answer:

If you take equity release while single and later decide to share the home, you may be able to transfer the scheme into your joint names, but this may only be possible if the second person meets the scheme's minimum age requirements. There may also be a charge for this.

If you cannot transfer the scheme into joint names, the other person will not be able to stay in the home if you die or move out.

# If things go wrong

## Complaints

If something goes wrong, contact the adviser or provider to put matters right. They have a procedure to follow when dealing with complaints.

If you're not satisfied with their response, you may be able to take the matter to the Financial Ombudsman Service.

The firm should give you the details of this free service. For more information get our **Making a complaint** guide – see *Useful contacts* on page 24.

## Compensation

If the adviser or provider has stopped trading and is unable or likely to be unable to pay claims against it, the Financial Services Compensation Scheme (FSCS) may be able to help.

There are limits to the amount of compensation it can pay depending on the type of claim.

The service is free to claimants – see *Useful contacts* on page 24.

You won't lose your home simply because a lender stops trading, but you must continue to pay your mortgage.

# Jargon buster

## Some key words and phrases explained.

### Annuity

An investment that converts a lump sum into income that is taxed.

### Arrangement fee

A fee you pay the lender, usually to reserve the mortgage funds.

### Equity release

A way you can benefit from the value of your home without having to move out – by borrowing against it or selling all or part of it for a regular income or a lump sum.

### Home reversion

A type of equity release scheme – you sell all or part of your home to a scheme provider in return for regular income or a cash lump sum or both, and continue to live in your home for as long as you wish.

### Lifetime mortgage

A type of equity release scheme – a loan secured on your home, which is repaid by selling your home when you die or go into long-term care.

### Mortgage

A loan secured on your property. If you don't keep up the mortgage repayments, your home may be repossessed.

### Negative equity

When the amount you owe the lender is more than the value of your home.

### Roll-up mortgage

A loan to which the interest is added each month or year.

### Sale-and-rent-back scheme

You sell your home to a company but have the right to stay there for at least five years. You must pay rent at the going rate for property like yours, which can go up.

### Secured loan

When a loan is 'secured' on an asset, usually your home, the lender can repossess this asset and sell it to get their money back if you don't keep up your repayments.

# Next steps

**Step 1**

Find out what your options are, and whether you can get financial help from state benefits, charities or your local council. If you think you need an equity release scheme, consider getting advice from a professional financial adviser.

**Step 2**

Make sure you get the two keyfacts® documents from your adviser or provider and use them to shop around and get the right deal for you.

Ask questions if anything is unclear. Whether you take professional financial advice or not, you should satisfy yourself that the scheme you take up is right for you.

**Step 3**

The provider will assess your application. They will also value the property, check that you are who you say you are and – if you have to make monthly payments – check whether you can afford them.

In the case of a home reversion, the provider must ensure any valuation is carried out independently.

**Step 4**

You will get an offer document. This is your final chance to check you are happy with all the terms and conditions of the scheme. If anything is not clear, talk to the provider.

Don't sign up for a scheme until you are sure it is right for you.

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