

Equity Release

About this factsheet and who it is for

Many older people consider releasing equity in 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.



The artwork on the front of this factsheet was done by an older artist for EAC's over 60s Art Awards.



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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
- 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
- Financial assistance to relatives and loved ones
- 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
- 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?

Releasing 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 in a variety of ways.

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.

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 usually be 55, 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 a certain 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

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.

No. of years	Amount owed if you take a lump sum of £45,000 and the interest is:		
	5%	7%	9%
5	£57,433	£63,115	£69,239
10	£73,300	£88,552	£106,531
15	£93,552	£124,156	£163,912
20	£119,398	£175,136	£252,198
25	£152,386	£244,234	£388,039

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 fraction 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.

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?

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.

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 FCA. Rules imposed on providers include offering consumers a fixed-term assured-shorthold 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.

Useful organisations

Independent Financial Advisers (IFA)

Listed on: www.unbiased.co.uk

Society of Later Life Advisers

societyoflaterlifeadvisers.co.uk

Members have to meet a level of professional standards, including undertaking specialist training.

Age UK

www.ageuk.org.uk

Tel: 0800 055 6112

A charity which offers a wide range of free information for older people.

Which?

www.which.co.uk

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

EAC FirstStop

www.housingcare.org

Free advice & information about all aspects of accommodation, care & support

Equity Release Council

www.equityreleasecouncil.com

Tel: 0300 012 0239

An industry body that represents equity release providers that have signed up to their code of practice.

Citizens Advice (CAB)

www.adviceguide.org.uk

Local CAB provide free advice on a wide range of subjects.

Home Improvement Agencies

wwwFOUNDATIONS.uk.com

Tel: 0300 124 0315

HIAs offer help to organise & carry out home repairs, adaptations and related practical work on home, including offering advice about 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

www.turn2us.org.uk

Tel: 0808 802 2000

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

About FirstStop Advice

FirstStop is a free information and advice service designed to help older people decide how best to meet their needs for support, care and suitable housing. It is provided jointly by a growing number of national and local organisations and it is led by the charity, Elderly Accommodation Counsel (EAC).

Contact us

- Visit us online: www.housingcare.org
- Use our self-help tool at hoop.eac.org.uk

The information contained in this factsheet is intended to be, and should be regarded as, a brief summary and is based on our understanding of present legislation, regulations and guidance. No responsibility can be accepted for action based on this information.

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