the Money Advice Service

Equity release schemes

Lifetime mortgages and home reversion plans

- The options available
- Things to consider
- Possible risks explained

The **Money Advice Service** is independent and set up by government to help people make the most of their money by giving free, impartial advice. As well as advice about mortgages, we offer information on a wide range of other money topics.

Visit our website today for advice, tips and tools to help you make informed decisions and plan for a better future.

moneyadviceservice.org.uk

Free impartial advice
- on the web
- on the phone
- face-to-face

Here to help you

This guide is for you if you are approaching retirement or already retired and are considering using the value of your home to raise a cash lump sum, additional income or both.

Before you sign up to an equity release scheme think about what you need the money for and make sure you've explored all other options first.

Contents

Is equity release right for you?

Equity release schemes are only available if you are above a certain age (usually 55). They are a way of getting cash from the value of your home without having to move out.

If you need to release cash as a lump sum or to top up your income, you may be thinking about using an equity release scheme. But it might not be the best solution.

Before you sign up to an equity release scheme think about what you need money for and make sure you've explored all other options.

If you want to pay off debts or manage your existing credit commitments

There are other options you should consider first. See if you can cut back – search for '*Budgeting and taking control*' on our website to get your finances back on track.
moneyadviceservice.org.uk

If you need more help dealing with debt

There are organisations that can give you free advice and suggest the best solutions for you – visit
moneyadviceservice.org.uk/debt

If you need to fund home repairs or adaptations so you can stay in your home longer

Contact your local authority first to see if you can claim money for home repairs and improvements. There are also charities that can help.

If you are exploring the options for funding long-term care

Read about '*long-term care*' on our website first.
moneyadviceservice.org.uk/longtermcare

Alternatives you should consider first

Equity release schemes can be an expensive way of accessing money tied up in your home. They aren't suitable for everyone. If you need money think about these options first.

Selling your current home and buying a smaller property
You keep full ownership of your new home and avoid paying interest on a loan.

Claiming any state benefits you may be entitled to
To get an estimate see **gov.uk/benefits-calculators**

Tracing any private pensions or investments you may have lost track of
For organisations that can help you see *Useful contacts* on page 18.

Using your savings or selling any investments
Consider getting professional financial advice before doing so.

Getting help and advice from a free debt agency
If you have debt issues visit
moneyadviceservice.org.uk/debt

How equity release schemes work

These schemes allow you to release money from the equity you have built up in your home. The equity you have is how much you could sell your home for on the open market, less any mortgage or other debt held against it.

Key points

1. To qualify for an equity release scheme, you have to be a certain age (usually over 55) and own your own home.
2. You're more likely to be able to make use of an equity release scheme if you don't have a mortgage, or any mortgage you have is relatively small.
3. You are still responsible for maintaining your home. If you don't, the scheme provider could arrange repairs and you would have to pay for them.
4. You'll still be responsible for paying your utility bills and Council Tax (or Rates in Northern Ireland).

How do you get your money?

Most schemes will offer you the choice of:

- the opportunity to take money when you need it or on a regular basis (often called a draw down or flexible facility)
- a combination of these options, for example, you can take a lump sum at the start, and then draw down cash later
- a cash lump sum.

Types of equity release schemes

There are two main types of equity release scheme:

- **lifetime mortgages**
- **home reversions**

The main differences are explained in the table below.

	Lifetime mortgage	Home reversion
How it works	You take out a loan on your home. Interest is normally added, or rolled up onto the loan.	You sell all or part of your home.
Do you still own your home?	Yes, but you have to pay back the mortgage.	No, you'll be a tenant of the reversion company.
Can you stay living in your home?	Yes	Yes
Do I have to pay anything?	Usually nothing, but with some products you can choose to pay the interest.	Some home reversion plans charge a 'peppercorn' rent (around £50 a year).
How does the company get its money back?	The money and interest added on is repaid from the sale of your home when you die, or if you move out permanently.	When your home is sold after you die or move out permanently.

Lifetime mortgages are explained on page 6 and *Home reversions* are explained on page 10.

Lifetime mortgages explained

There are three main types available:

1. Interest roll-up mortgages

With a roll-up mortgage, interest is added to the loan. You don't make regular payments; the amount you originally borrowed, plus the rolled-up interest is repaid when your home is sold after your death or if you have to move permanently into care.

The amount you owe increases because interest is being added or rolled-up on to the original loan. Lifetime mortgages are typically arranged this way, but some allow you to pay the interest (see *Interest-only mortgages* on the next page).

Eventually this might mean that you owe more than the value of your home. **However, most lifetime mortgages offer a no-negative-equity guarantee** giving the reassurance that what you repay doesn't exceed the value of your property. Make sure your mortgage scheme includes this.

The loan you get can be paid to you:

- in a cash lump sum
- in smaller sums over time – either regularly or when you need them.

If you choose a single cash lump sum at the start, the amount you owe can grow quickly – see the table below. If you take smaller sums over time the amount you owe will grow more slowly.

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

2. Interest-only mortgages

Like a roll-up mortgage you get a cash lump sum. However, like a normal mortgage you pay fixed or variable interest on the loan each month.

If the interest rate is variable and your pension or other income is fixed, you may find it harder to meet your repayments when interest rates rise.

The amount you originally borrowed is repaid when your home is sold.

3. Fixed-repayment mortgages

You get a cash lump sum. You don't pay capital or interest every month, instead a total repayment amount is agreed in advance that is higher than the amount of your cash lump sum. This is paid back when your home is sold.

This can work in your favour if you end up living much longer than the lender thinks you will. But if your home has to be sold earlier than you planned, you will get a worse deal than if you had an interest roll-up mortgage.

Pros and cons of lifetime mortgages

Pros	Cons
✔ They can give you monthly income or a large lump sum.	✖ The inheritance you pass on may be reduced and your beneficiaries (the people you leave your estate to) may have to sell your home in order to repay the lifetime mortgage.
✔ You get to keep and stay in your own home.	✖ Schemes can be inflexible if your circumstances change – you'll usually need the provider's permission for someone else, such as a relative, carer or new partner, to move in.
✔ The loan is only repaid when you die or on the sale of your property.	✖ The scheme might affect your entitlement to benefits, as any money you raise through equity release is likely to affect the assessment of your income and capital.
✔ Unlike Home Reversion schemes there's the potential to benefit from any future increases in the value of your property.	✖ You might need to pay arrangement, valuation and legal fees.
✔ Fixed rates prevent interest spiralling out of control.	✖ You might not be able to transfer all of the debt if you move to a smaller property.
✔ Many schemes guarantee that the total debt can't exceed the value of your property.	

Lifetime mortgages – an example

Compare the same loan amount of £45,000 across schemes. See what you might get and what you might have to pay based on an interest rate of 6.5%.

Interest rate 6.5%	Roll-up mortgage		Interest-only mortgage	Fixed-repayment mortgage
Payment as income or lump sum	Lump sum	Income (drawdown)	Lump sum	Lump sum
Monthly interest payable on loan	Nil	Nil	£243.75	Nil
Monthly income	Depends on how the lump sum is invested.	Depends on scheme – can be regular or as and when you need it.	Depends on how the lump sum is invested.	Depends on how the lump sum is invested.
Amount you owe if you die/ move out after 15 years	£45,000 (the original loan) plus £70,733 interest. **Total = £115,733**	£45,000 (the original loan) plus £30,087 interest. This is based on income of £250 each month. **Total = £75,087**	£45,000 (the original loan). You'll have paid £43,875 in interest over the 15 years (£243.75 each month).	The sum agreed at the outset (which will be higher than the original loan of £45,000). If the loan is repaid after your death, interest may be charged from the date of death until the loan is paid off.
Who gets the proceeds of selling your home?	The lender gets back the amount owed for the original loan plus interest – you or your beneficiaries get the balance.		The lender gets back the amount owed for the original loan – you or your beneficiaries get the balance.	The lender gets back the sum agreed at the outset and any interest charged. You or your beneficiaries get the balance.

Budget planner





Use our **Budget planner** to get an overview of the state of your finances. This tool will help you work out how much money you have coming in every month and what you are spending it on.

Try it now **moneyadviceservice.org.uk/budgetplanner**

the Money Advice Service

Home reversions explained

With a home reversion plan you sell all or part of your home in return for a cash lump sum, a regular income or both.

Usually you don't pay rent, or if you do it's only a minimal amount.

When your home is sold, the reversion company gets its share of it. If you sold the entire property they will get all of the proceeds. If you sold half, they get that share of the proceeds, leaving the rest to go towards your estate.

The older you are when you start a home reversion scheme, the higher the percentage you'll get of your home's market value. For this reason they are normally best suited to those over 70. If you are considering a home reversion plan make sure you get your home independently valued.

Pros and cons of home reversions

Pros	Cons
✔ You get to stay in your own home for the rest of your life, or until you have to move permanently into care.	✖ You're no longer the sole owner of your home.
✔ Equity release schemes can help reduce any Inheritance Tax liability your beneficiaries will have to pay after your death.	✖ You will normally get less than the full market value of your home – typically between 20% and 60% – because the buyer can't re-sell the property until you die or until you move out.
✔ If you've only sold part of your home, you benefit from any rise in the value of the share you've kept.	✖ The inheritance for your beneficiaries will be substantially reduced.
	✖ The scheme may affect your entitlement to benefits, as the money raised affects the assessment of your income.
	✖ Schemes can be inflexible if your circumstances change – you'll usually need the provider's permission for someone else, such as a relative, carer or new partner, to move in.

Home reversions – lump sum v income or both

A lump sum gives you the freedom to manage your money, but if you live to a very old age you might have little of it left for your later years. With the income option, there's the peace of mind of knowing you'll receive regular payments over a set period of time.

These examples aren't based on any particular amount paid over to you. Before taking out an equity release scheme, get advice from a solicitor and a professional financial adviser (see page 17).

Home reversion	Lump sum or income from the sale of part or all of the property
Monthly interest payable	£0 – a reversion is not a loan so there's **no interest to pay.**
Monthly income	Depends on your arrangements with the provider or how you invest the lump sum.
How much are the proceeds?	Depends on the value of the property at the time you die and how much of it you sold.
Who gets the proceeds of selling your home?	The home reversion company – you or your beneficiaries get the value of any part of your home you didn't sell.

Remember

Equity release schemes are a complex area and it is essential you seek independent legal and financial advice if you're not sure about something.

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

Did you know

You may have to leave your home after the end of the fixed term in your tenancy agreement, which may only last five years. And you will have to pay a much higher rent which could go up. **Consider these schemes only as a last resort and ensure you deal with an FCA regulated firm.**

If you're looking at equity release schemes and the alternatives, you can find out more on the Money Advice Service website **moneyadviceservice.org.uk**

What happens if your situation changes?

This table shows what happens under different types of scheme if things change in your life.

If you decide to move	
Lifetime mortgages Most lifetime mortgages can be transferred to the new property. If you're moving to a lower-value property, you'll usually have to repay part of the lifetime mortgage. If you can't transfer the scheme, you'll have to repay the whole mortgage when you sell your property. The roll-up of interest might mean you have less than expected to buy a new property with. There may be charges if you repay the loan early. Check with the lender about any restrictions on moving.	**Home reversions** Some home reversion plans can be transferred. If you can't transfer the scheme, you'll have to buy back the property or share of the property. This could be very expensive and might not leave you with enough to buy the new property.

If you owe more than the property is worth	
Lifetime mortgages The loan and rolled-up interest can rise to more than the value of your property. However, most lifetime mortgages offer a guarantee, which promises your beneficiaries won't have to repay more than the value of your property. Make sure your scheme offers this or your beneficiaries may have to repay the extra from your estate.	**Home reversions** This doesn't apply to home reversions.

If you decide to cancel	
Lifetime mortgages You can pay off a lifetime mortgage at any time, but there's likely to be a charge and this may be high. Find out from your lender what you have to pay.	**Home reversions** You could cancel a home reversion in very limited circumstances, but this could be very expensive.

If you decide to switch deals	
Lifetime mortgages You may be able to switch your lifetime mortgage to get a better deal. Check if there's an early repayment charge as this could cancel out the benefit you get from switching.	**Home reversions** You can't switch a home reversion plan, as you have already sold some or all of your home. This can't be undone unless you buy back the share from the provider at its full market value.

If you die soon after taking out a scheme	
Lifetime mortgages Most lenders will charge interest until your property is sold and the mortgage repaid in full. 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.	**Home reversions** 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.

If you die before your partner	
Lifetime mortgages If the scheme is in both names, the arrangements will continue. If the scheme and the property are both in your sole name, the property would have to be sold and your partner would have to move. Unless, for example, they could repay the lifetime mortgage in full.	**Home reversions** The same applies.

If you decide to share your home	
Lifetime mortgages You may be able to transfer the scheme into your joint names. The second person may have to meet the scheme's minimum age requirements and there may be a charge. If you can't transfer the scheme into joint names, the other person won't be able to stay in the home if you die or move out.	**Home reversions** A home reversion is typically a one-off agreement, so can't be added to or changed after the event.

If you or your partner needs long-term care	
Lifetime mortgages 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 care home. If you both move permanently into a care home, the scheme will usually end and the property will be sold.	**Home reversions** The same applies.

Fees and costs

You'll have to pay fees and costs to use an equity release scheme. Make sure you ask for illustrations or quotes that set these out.

- **Arrangement fee:** some schemes will charge an arrangement fee, also known as an application or product fee.
- **Valuation fee:** linked to the value of the property. Probably around £200 for a property valued at £250,000.
- **Legal costs:** ask your solicitor for the total cost.
- **Buildings insurance:** this will vary, depending on the property. If you already have buildings insurance it will need to meet the lender's requirements.
- **Early repayment charge:** if you repay your lifetime mortgage before the end of the contract you may have to pay an early repayment charge. These vary according to the lender.
- **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 up front, 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.

If things go wrong

If something goes wrong, contact the adviser or provider to put matters right.

If you're not satisfied with their response or they don't respond within a certain amount of time, you can take your complaint to the Financial Ombudsman Service (FOS).

The firm should give you the details of this free service. For more information search for '*Money complaints and compensation*' on the Money Advice Service website. Or to contact the FOS see *Useful contacts* on page 18.

Compensation

If the adviser or provider has stopped trading and isn't able to pay claims against it, the Financial Services Compensation Scheme (FSCS) may be able to help.

The service is free to claimants – see *Useful contacts* on page 18.

You won't lose your home because a lender stops trading, but if you have a lifetime mortgage where regular payments are made, you must continue to pay them.

Get professional advice

Before taking out an equity release product make sure you get professional advice.

Firms selling or advising on equity release schemes must be regulated by the Financial Conduct Authority (FCA) and they need to have a relevant **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 FOS.

Check the FCA register to make sure a firm is regulated. See *Useful Contacts* on page 18.

Get information tailored to you

When you ask about equity release schemes, you'll be given printed information. This is general information – not advice specific to your needs and circumstances.

An FCA regulated firm will be obliged to take your circumstances into account. They should:

- check whether using the scheme will affect your tax bill and entitlement to benefits
- tell you the advantages and disadvantages of the scheme
- give you details of the scheme's features
- for lifetime mortgages they must give you the APR – annual percentage interest rate – if they give you price information
- tell you if there's a fee for advising or arranging your mortgage.

Use keyfacts information to compare products

Your adviser should give you two documents with the keyfacts® sign. One will explain the service being offered, if you'll have to pay for it, and the product range on offer.

The second (often called the keyfacts® document) will be prepared specifically for you. It should outline all the important risks and features of the particular scheme.

You can use these documents to compare schemes and they can help the adviser recommend the one which is best suited to your needs.

Use the keyfacts® to make sure what you are being offered is right for you.

Useful contacts

Money Advice Service

The Money Advice Service is independent and set up by government to help people make the most of their money by giving free, impartial money advice to everyone across the UK – online, over the phone and face-to-face.

We give advice, tips and tools on a wide range of topics including day-to-day money management, savings, planning your retirement and for your future, as well as advice and help for life-changing events such as starting a family or losing your job.

For advice and to access our tools and planners visit
moneyadviceservice.org.uk

Or call our Money Advice Line on
0300 500 5000

Typetalk
18001 0300 500 5000

Financial Conduct Authority (FCA)

To check the FCA Register, or to report misleading financial adverts or promotions.
0800 111 6768 or 0300 500 8082
fca.org.uk/consumers

Age UK

0800 169 6565
ageuk.org.uk

Request factsheet 13: funding repairs, improvements and adaptations

Age Cymru

08000 223 444
agecymru.org.uk

Age NI

0808 808 7575
ageni.org.uk

Age Scotland

0800 470 80 90 in partnership with Silver Line Scotland
agescotland.org.uk

Request factsheet 13: older homeowners – financial help with repairs and adaptations

Citizens Advice

citizensadvice.org.uk

Independent Age

Advice and support for older age
0800 319 6789
independentage.org

Local authority or council

For information about Council Tax Reduction, home repair and improvement assistance and local charities that might be able to help.

See the phone book or get contact details from your local public library.

The Pension Service

For information about Pension Credit.
0800 99 1234
Textphone: 0800 169 0133
gov.uk/pension-credit

Not-for-profit help arranging home improvements and financial advice

Foundations (England)

0845 864 5210
foundations.uk.com

Care and Repair Scotland

0141 221 9879
careandrepairscotland.co.uk

Care and Repair Cymru

0300 111 3333
careandrepair.org.uk

Fold House (Northern Ireland)

028 9042 8314
foldgroup.co.uk

To find an equity release provider

Equity Release Council

Search for a qualified adviser on the Equity Release Council website. Each member is signed up to the Equity Release Council's Code of Conduct. All schemes offered by members also offer a no-negative-equity guarantee.
equityreleasecouncil.com

To find a financial adviser

Contact the following:

Unbiased.co.uk

For independent financial advisers or mortgage brokers in your area.
unbiased.co.uk

Institute of Financial Planning

For help in planning your finances.
financialplanning.org.uk

The Personal Finance Society

For financial advisers in your area.
findanadviser.org

MyLocalAdviser

For a mortgage, insurance or investment adviser in your area.
mylocaladviser.co.uk/mla

Society of Later Life Advisers

For an adviser who specialises in the financial needs of older people.
societyoflaterlifeadvisers.co.uk

To find an independent surveyor or valuer

Royal Institute of Chartered Surveyors
0870 333 1600
rics.org/uk

To find a solicitor

Look in your phone book or contact the following:

Solicitors for the elderly
0844 567 6173
solicitorsfortheelderly.com

Law Society of England and Wales
020 7320 5650
lawsociety.org.uk

Law Society of Scotland
0131 226 7411
lawscot.org.uk

Law Society of Northern Ireland
028 9023 1614
lawsoc-ni.org

For information about tax

HM Revenue and Customs (HMRC)
0300 200 3300
hmrc.gov.uk

For help with debt problems

Citizens Advice
citizensadvice.org.uk

StepChange Debt Charity
0800 138 1111
stepchange.org

National Debtline
0808 808 4000
nationaldebtline.org

Money Advice Scotland
0141 572 0237
moneyadvicescotland.org.uk

Debt Action NI
0800 917 4607
debtaction-ni.net

Tracing lost pensions, savings or investments

For lost accounts with banks, building societies and National Savings and Investments (NS&I), get a claim form from any bank or building society, library or Citizens Advice Bureau.

My Lost Account
mylostaccount.org.uk

The Pension Tracing Service
To trace lost pensions.
0845 600 2537
Minicom/textphone: 0845 300 0169
gov.uk/find-lost-pension

Unclaimed Assets Register
To trace lost insurance policies, pensions, unit trust holdings, and share dividends – for a small fee.
0844 481 81 80
uar.co.uk

Complaints and compensation

Financial Ombudsman Service (FOS)
0800 023 4567 (free from landlines) or 0300 123 9123
financial-ombudsman.org.uk

Financial Services Compensation Scheme (FSCS)
0800 678 1100 (free from landlines) or 020 7741 4100
fscs.org.uk

Equity release schemes
is one of the guides available from the Money Advice Service. To see our full range of guides and request copies visit
moneyadviceservice.org.uk

Money Advice Line **0300 500 5000***
Typetalk **1800 1 0300 500 5000**

Don't miss out on money advice. To get more from your money, sign up to our emails and receive advice and news straight to your inbox. Sign up at **moneyadviceservice.org.uk/signup**

If you would like this guide in Braille, large print or audio format please contact us on the above numbers.

*Calls cost the same as a normal call, if your calls are free, it's included. To help us maintain and improve our service, we may record or monitor calls.

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