AGE Concern

factsheet

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Equity release

About this factsheet

This factsheet provides information about different types of equity release schemes such as lifetime mortgages and home reversion schemes. It includes information on:

- what to consider before deciding on a particular scheme
- other options for raising income or a lump sum of money
- equity release regulations and safeguards
- how to choose an adviser
- ‘sale and rent back’ schemes.

The information in this factsheet is intended only as a guide. We recommend that you get advice from an independent financial adviser with specialist knowledge of equity release before you decide to take out one of these schemes.

The information given in this factsheet is applicable in England. Different rules may apply in Wales, Northern Ireland and Scotland. Readers in these nations should contact their respective national Age Concern organisations for information specific to where they live – see section 10 for details.

For details of how to order other Age Concern factsheets and information materials mentioned inside go to section 10.

Inside this factsheet

1 Recent developments

- On 1 July 2009 the Financial Services Authority began interim regulation of 'Sale and Rent Back' (SRB) schemes.

2 Introduction

Equity release is a term that refers to the various ways in which older homeowners can use their homes to generate income or lump sums, either with a loan secured on their home or by selling their property (or part of their property) but continuing to live in it during their lifetime.

Note

Age Concern recommends that you always get independent legal and financial advice before taking out an equity release plan.

3 Things to consider

3.1 Options

Raising income or a lump sum from your home is only one of the options that may be available for older home owners. Consider all your options before you make a decision.

For example:

- you may have other investments or assets that could boost your income or give you the lump sum you need – a financial adviser should be able to look at all your options (see section 8 on choosing a financial adviser)
- you may be entitled to state benefits such as Pension Credit, Income Support, Council Tax Benefit and Attendance Allowance; for more information see Age Concern's range of factsheets on benefits
- consider moving to a less expensive, smaller property; Age Concern has a range of factsheets on housing options

- if you are struggling to pay off your debts, get advice on managing debt from your local Citizens Advice Bureau, local Age Concern or National Debtline (see section 9 for the contact details of useful organisations)
- if you need help with repairs, improvements or adaptations to your home, find out first if you can get it from your council or other agency; for more information see Age Concern's Factsheet 13 *Older home owners: financial help with repairs and adaptations*.

3.2 Conditions

There are usually certain conditions that people taking out equity release schemes must meet. These will differ between schemes but may include:

- a minimum age, usually 60, but some schemes may be open to people over 50
- a maximum amount you can borrow or sell, for example 40% of the property value
- you must own your home and it must be of a certain value
- you have little or no mortgage left
- you have to borrow a minimum amount of money
- some companies will only accept applications from people living in freehold houses, rather than leasehold flats
- some companies will only accept applications from people whose properties have been built using materials such as brick or concrete, not wood-build or prefabricated.

3.3 Costs

Costs and fees of setting up equity release plans will vary between different providers. Ask about all fees before making any commitment.

Typically the costs will include:

- completion, arrangement or application fees that cover administration costs. Some providers may refund this on completion

- valuation fees that will depend on how much your home is worth, with higher prices for more expensive properties. Some providers may refund this on completion
- solicitors' fees that cover the legal work carried out on your property. Your solicitor should give you a breakdown of the fees
- early repayment charges if you want to pay off your loan early.

3.4 Repairs, insurance and other ongoing costs

You will remain responsible for repairing and insuring the building. The scheme provider will expect you to maintain your home to a reasonable standard. If you don't, the scheme provider can arrange to do necessary repairs and you will be charged for them, or the cost could be added to the amount you owe. Remember that maintenance costs could be high. You will still have to pay Council Tax and other bills.

3.5 Commission or fee

A financial adviser is usually paid by commission, one-off fee or combination of the two; you normally pay a fee directly to the adviser while a commission is paid to the adviser indirectly from the money you raise on your property. Check how they are expecting to be paid. Independent financial advisers must give you the option to pay by fee if you want to.

3.6 Moving house

You may want to move somewhere smaller or more suitable for your needs at a later date. Most schemes will allow the plan to be transferred to another property but this may not be the case if you are moving to retirement housing.

If the value of your new property is lower, you will usually have to repay part of a lifetime mortgage or part of a home reversion from the proceeds of selling your home. If you can't transfer your scheme, you would have to pay off the whole amount from the proceeds of selling your home and you might not have enough funds to buy a new home.

Also, bear in mind that the income from equity release may affect your future eligibility for financial assistance with care home fees. If you release equity from your property but give the funds away, for example to a family member, it may still affect your future eligibility for assistance with care home fees. Make sure you discuss this with your financial adviser. See Age Concern Factsheet 40, *Deprivation of assets in the means test for care home provision.*

3.7 Other changes in circumstances

Consider whether any other change in your circumstances may affect the plan, for example someone else coming to live with you after the plan is taken out. If a younger family member or friend moves in to provide companionship or care, the scheme would still come to an end at your death or that of your partner, and the house would have to be sold.

If you take out the plan as a single person and get married, enter into civil partnership or decide to live with a partner in your property later, the plan may come to an end on your death. You may be able to transfer the scheme into your joint names but if this is not possible, your spouse, civil partner or partner may no longer be able to remain in the house after your death.

3.8 Life expectancy

The older you are, the larger the amount of money you are likely to receive from a scheme. This is because your life expectancy is lower. Men receive more than women of the same age because their life expectancy is lower.

If you are considering a scheme where you sell all or part of your home, get advice about what will happen if you were to die shortly after taking up the plan. Some schemes offer capital protection in the event of early death but the amount you receive may be reduced as a consequence.

3.9 State benefits and charges for care services

If you are receiving a means-tested benefit such as Pension Credit, Income Support or Council Tax Benefit, the income from any of these schemes may affect your entitlement. You could therefore lose some or all of your benefit. Losing all your benefit would probably mean having to pay more for various things such as dental treatment and glasses, and losing the right to grants or loans from the Social Fund.

Income or capital from equity release scheme might also affect any charges you pay for care service; take further advice.

Important

Make sure that the extra income from the scheme will be enough to make up for any loss of benefits and related entitlements. Bear in mind that the rules on benefits could change in the future. For more information see Age Concern Information Sheet 7, *Equity release and income-related benefits*.

3.10 Inflation

If you take out a scheme that provides a regular income, check whether the income is fixed or can be increased. If the income is fixed, it will not increase in line with inflation. If there is inflation, the real value of your income will be reduced.

3.11 Tax

The equity you release will be tax free but any income raised from investing the money may increase the amount of income tax you have to pay.

By reducing the value of your estate, you may be cutting Inheritance Tax bills.

3.12 Family

The scheme can cut Inheritance Tax but may considerably reduce the size of your estate. You may want to discuss it with close family members. A financial adviser should be able to advise you about any tax implications.

3.13 Lasting Power of Attorney

The Lasting Power of Attorney (LPA) replaced the old system of Enduring Power of Attorney (EPA). No new EPAs can be set up after 1 October 2007, but pre-existing ones are still valid.

Individual lenders may or may not deal with EPA or LPA holders as bona fide representatives, so you will need to ask them about this before entering into any transaction on behalf of the donor.

Meaning

An LPA is a document appointing a person to act on another's behalf if they are unable to make certain decisions themselves. There are two types of LPA, a Property and Affairs LPA and a Personal Welfare LPA. A Property and Affairs LPA can be used even if the donor has the mental capacity to manage their own financial affairs, but it must be registered at the Office of the Public Guardian first.

If you have been granted an Enduring Power of Attorney or Lasting Power of Attorney seek independent legal or financial advice regarding your status and your right to represent the donor in financial transactions. You can obtain information from the Office of the Public Guardian customer services line on 0845 330 2900.

4 Lifetime mortgages

4.1 Roll-up mortgages (loans)

With a roll-up loan you take out a loan against the value of your home. The lender gives you a lump sum of money or monthly income (or a combination of both). You do not have to make any repayments of interest or capital until you sell your home (usually when you die or move to a care home). Instead, the interest is 'rolled-up' and added to the total loan. The full amount of rolled-up interest and the loan are repaid when you sell your home.

How much you can borrow varies according to the company, value of the property and your age – the younger you are, the less you can borrow. This is because you are likely to live longer and the amount of debt you will accumulate will be greater.

Because interest is compounded on a rolled up mortgage (so you pay interest on interest), the amount you owe can grow very quickly. For example, a roll-up loan of £20,000 can more than double in just 10 years on a rate of 7.5% a year. It is important that you choose a scheme that guarantees 'no negative equity' so that neither you nor your estate will be liable for more than the value of your property. Even if the amount you borrow (plus the rolled-up interest) is more than your property's selling price, you or your beneficiaries will not have to repay more than the amount your home is sold for.

Some schemes also offer fixed or capped interest rates to protect against future rate increases and ensure that the loan will not go beyond a certain level but should the interest rates fall you will not benefit. A good provider will also guarantee no repossession in your lifetime.

Age Concern recommends that you take independent financial and legal advice before proceeding. You may also consider the following points:

Advantages

- You get a substantial sum to spend as you wish, or draw a regular income, without paying interest.
- You retain full title to your property and may benefit from any increases in its value.

Disadvantages

- Your loan debt accumulates rapidly.
- Interest rates can be high because the rate will be fixed for the life of the loan – which can last decades.

4.2 Drawdown lifetime mortgages

In these types of lifetime mortgages, instead of taking the amount you borrow as a lump sum in the beginning, you take smaller cash amounts either when needed or on a regular basis. Because you are taking out smaller amounts of money over a period of time, your debt will grow more slowly than if you take a whole sum at the start.

4.3 Interest-only loans

In this scheme you take out a loan against the value of your home. You receive a lump sum on which you will have to make interest payments. You will not have to repay the capital until the sale of your home.

The interest rates can be fixed or variable. If they are variable and your income is fixed you may find it difficult to meet your repayments if interest rates rise. This is an important consideration for couples because if one partner dies and the surviving partner has a reduced income, she or he may not be able to afford the interest payments and forced to move to reduce or repay the loan.

4.4 Fixed repayment lifetime mortgages

You take out a loan that is secured on your home. You do not pay interest on your loan but agree to pay the lender, when your home is sold, a higher sum than you borrowed. The amount you will have to repay will depend on your age and life expectancy. It is fixed at the outset and it will be the same regardless of how long your mortgage lasts. But, when you die, the lender may charge interest on the repayment sum from the date you die until the mortgage is repaid.

5 Home reversion scheme

With a home reversion scheme you sell your home or a part of your home to a private company called a reversion company. In return you receive a cash lump sum or a monthly income. You receive a lease giving you the right to remain in your house rent-free or for a nominal monthly rent for the rest of your life. You should check the terms of the lease to make sure you know what is expected of you.

When the property is sold, usually after your death, the reversion company receives the proceeds from 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 would receive 50% of the proceeds when it is sold.

If you sell only part of your home you receive a smaller cash lump sum or lower monthly income but when the home is sold you or your heirs may benefit from an increase in the value of the part of your home that you keep.

When you sell your home or part of your home to a reversion company you do not receive the full value that you would get if you sold on the open market. This is because the reversion company gives you the right to live in your home for the rest of your life. So you only receive a percentage of the market value. The percentage of the value you receive will also depend on your age and sex (see section 3.8 ‘Life expectancy’).

Certain schemes may buy your home at a higher purchase price and in return you pay an ongoing rent while you live in your home. You would need to be sure that you would be able to continue to afford this rent payment.

Age Concern recommends that you take independent financial and legal advice. You may also want to consider following points.

Advantages

- You continue to share in any rise in the value of your property (unless you have sold its entire value).
- You have no ongoing repayments to make (apart from a nominal rent in some cases); the reversion company makes all its money when the property is sold.
- You will know what share of your home (if not its value) you will be leaving to your family.

Disadvantages

- You are not likely to get full market value of the share of the property you sell.
- You will not gain from any increase in the value of the property, unless you have sold only a proportion of it.
- If you die soon after taking out a plan, you could effectively have sold off your house (or a share of it) cheaply. Some schemes give families a rebate if you die within the first few years of signing up.

- Some schemes take a long time to arrange, and may be selective about the properties they take.

6 Safeguards

6.1 Regulation

Lifetime mortgages and home reversion schemes are now regulated by the Financial Services Authority (FSA). This means that there are rules about what providers must tell you when you take out an equity release plan. If they do not follow these rules and something goes wrong, you will have a right to seek redress through the Financial Ombudsman Scheme.

Be aware that some home reversion providers do not need to be authorised by the FSA. These could be, for example, an individual person who buys all or part of your home on a one-off basis. If you take out a scheme with an unauthorised provider you will not be able to use the complaints and compensations schemes. Check with the FSA that the firm you are dealing with is authorised.

6.2 Information or advice

When you approach an adviser or a lender, they should tell you if they are going to give you advice or information.

The main difference between the two is that, if you take advice and the product is unsuitable, you may have grounds for complaint. If you don't take advice, as long as the information you were given was accurate, you will not be able to complain if you make a mistake and choose the wrong one. Your adviser has to be authorised by the FSA. Authorisation means you are protected if you receive bad advice or if your product provider or adviser goes out of business (see section 9 for contact details for the FSA).

Your adviser will give you information about equity release in the form of 'key facts' documents. You will receive one for the recommended product if you take advice or one for each product if you don't. It should make it easier for you to compare different products and understand the service you will receive and how much it will cost. Make sure you read and understand it, and ask about anything that is not clear to you.

Choose an independent financial adviser; they have access to all the market (see section 8). Also choose a solicitor who will act on your behalf only; not one recommended by the company providing the scheme.

6.3 Safe Home Income Plans (SHIP) members

Some lifetime mortgage and home reversion providers are members of the Safe Home Income Plans (SHIP). SHIP 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 will be guaranteed that you will not 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 section 9 for contact details for SHIP.

7 Sale and rent back schemes

Sale and rent back (SRB) schemes are usually offered to homeowners who are in financial difficulties and face repossession of their home. They are an arrangement where 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.

Although the schemes are sometimes advertised as lifetime leases, in most cases they do not guarantee occupancy for life. Your tenancy is most likely to be an assured shorthold tenancy which means that after initial six or twelve months you can be easily evicted and/or your rent may be increased significantly to such a level that you will not be able to afford it. For more information on assured shorthold tenancy see Age Concern's Factsheet 68, *Tenants' rights' – security of tenure*. You may also lose your home because your landlord defaults on the mortgage.

SRB schemes are not equity release schemes. There are two main differences between them:

- security of tenure – equity release will usually provide the customer with the right to live in their homes for life
- in equity release schemes you usually do not have to pay rent.

These schemes, unlike equity release, were not regulated by the FSA until recently. From 1 July 2009 the FSA began interim regulation of SRB schemes and firms offering these schemes must have FSA permission to do so. Under the interim regime, firms will need to meet FSA conditions, which include the requirement to have adequate resources and to be run by fit and proper people. Customers will have the right to complain to the Financial Ombudsman Service if something goes wrong, but if the SRB firm fails they will not be able to claim compensation. Compensation will not apply to schemes until full regulation begins next year on the 30 June 2010.

If you are considering taking out this sort of scheme get independent advice. Ask the FSA if the company you are dealing with has permission to offer SRB schemes.

If you have difficulties paying your mortgage get advice. For more information about dealing with mortgage arrears see the Citizens Advice Bureau website, contact your local CAB or National Debtline (see section 7).

For a guide on how the scheme may affect your right to Housing Benefit, see the leaflet produced by the Department for Work and Pensions *Advice for homeowners – sale and rent back*. You should be able to get it from your local authority.

8 Choosing an adviser

Equity release is complicated and you should get advice from a properly qualified independent financial adviser. 'Independent' means they are not restricted to selling schemes from just one or two firms. The FSA has a guide *Getting financial advice* listing organisations that can help you find a financial adviser (see section 9 for details).

In choosing a financial adviser you might find the following tips and questions helpful.

- Check that your adviser is authorised (the FSA can do this for you – see above).
- Is your adviser independent or tied to a particular provider?
- Have they passed specialist equity release exams?
- What experience do they have in advising on these plans?

- Did they try to get to know your circumstances and needs?
- Have they covered different options not just one?
- Ask questions about anything you do not understand.
- If you feel rushed or pushed by your adviser or are not getting straight answers, go elsewhere.
- Check documents and forms carefully before signing anything.
- Do not sign up to a deal unless you are happy with it.

9 Useful organisations

- **Council of Mortgage Lenders (CML)**

  CML's enquiry service does not extend to non-members but the website has consumer information section which includes information on equity release and can be downloaded free of charge.

  Website: www.cml.org.uk

- **Financial Services Authority (FSA)**

  The FSA will confirm if your financial adviser is authorised. It produces booklets and factsheets including *Just the facts about equity release schemes –raising money from your home* and *Getting financial advice* (this guide includes a list of organisations that can help you to find a financial adviser). It can help with general enquiries and complaints handling procedure.

  Tel: 0845 606 1234
  Website: www.fsa.gov.uk

- **National Debtline**

  National Debtline is the national telephone helpline for people with debt problems in England, Scotland and Wales. The service is free, confidential and independent. It has existed since 1987 and is now part of the Money Advice Trust).

  Tel: 0808 808 4000 (free call)
  Website: www.nationaldebtline.co.uk

- **Office of the Public Guardian**

  The Office of the Public Guardian supports and promotes decision-making for those who lack capacity or would like to plan for their future, within the framework of the Mental Capacity Act 2005.

  Tel: 0845 330 2900
  Website: www.publicguardian.gov.uk

- **Safe Home Income Plans (SHIP)**

  SHIP was launched in 1991. Its members include the leading providers of lifetime mortgages and home reversion plans. SHIP has created a code of conduct to protect its consumers and works to increase education, awareness and understanding of safeguards and how equity release works.

  Tel: 0870 241 6060
  Website: www.ship-ltd.org.

10 Further information from Age Concern England

Visit the Age Concern website, www.ageconcern.org.uk, or call our national Information Line on 0800 00 99 66 (free call) if you would like:

- to order copies of any of the Age Concern information materials mentioned in this factsheet
- to request information in large print
- further information about our full range of information products
- contact details for your nearest local Age Concern.

Books from Age Concern

Age Concern publishes a wide range of books for older people and those who care for and work with them. The following title may be of particular interest:

Your rights to money benefits 2009/10. All you need to know about the full range of benefits for the over 60s. £5.99 (available June 2009)

To order this book, or to view our full range of books, please visit our website www.ageconcern.org.uk/bookshop or call our book order line 0870 442 2120.

Age Concern and Help the Aged

Age Concern England and Help the Aged have joined together to form Age UK, a single charity dedicated to improving the lives of older people.

Age Concern and Help the Aged across the UK

To find out more about Age Concern and Help the Aged's work in Northern Ireland, Scotland and Wales, contact:

Age Concern Northern Ireland
Tel: 028 9032 5055
Website: www.ageconcernni.org

Scottish Helpline for Older People (Age Concern Scotland)
Tel: 0845 125 9732
Websites: www.olderpeoplescotland.org.uk
www.ageconcernscotland.org.uk

Age Concern Cymru & Help the Aged in Wales
Tel: 029 2043 1555
Website: www.accymru.org.uk

Support our work

Age Concern is the largest provider of services to older people in the UK after the NHS. We make a difference to the lives of thousands of older people through local resources such as our befriending schemes, day centres and lunch clubs; by distributing free information materials; and through our national freephone helpline – the Age Concern Information Line 0800 00 99 66.

If you would like to support our work by making a donation please call Supporter Services on 020 8765 7527 (national call rate, Monday to Friday 9.15am–5pm) or visit www.ageconcern.org.uk

Legal statement

Age Concern England (charity number 261794) has merged with Help the Aged (charity number 272786) to form Age UK, a charitable company limited by guarantee and registered in England: registered office address 207-221 Pentonville Road, London, N1 9UZ, company number 6825798, registered charity number 1128267.

Age Concern and Help the Aged are brands of Age UK. The three national Age Concerns in Scotland, Northern Ireland and Wales have also merged with Help the Aged in these nations to form three registered charities: Age Scotland, Age Northern Ireland, Age Cymru.

Disclaimer and copyright information

This guide is not a comprehensive statement of the law in this subject and Age Concern and Help the Aged cannot give individual legal or financial advice. Some rules may have changed since the publication of this guide. If you have any queries that this guide does not answer, seek further advice from one of the organisations suggested.

Please note that the inclusion of named agencies, companies, products, services or publications in this factsheet does not constitute a recommendation or endorsement by Age Concern and Help the Aged. While every effort is made to ensure accuracy, Age Concern and Help the Aged cannot be held responsible for errors or omissions.