# Equity Release

The NFWI created this booklet and the Financial Services Authority paid for this work as part of the National Strategy for Financial Capability.

This booklet forms part of a series of five, written by the speakers at You and Your Money - A Conference on Personal Finance, held at Denman College in May 2008. The conference offered the opportunity to discover where to find advice, and how to keep track of finances, choose financial products, plan ahead, and stay informed about financial matters.

This booklet was written by Jane Vass.

This booklet was created by Denman College, and the Financial Services Authority paid for this work as part of the National Strategy for Financial Capability. We aim to give you general information to help you make financial decisions. The information does not constitute financial or other professional advice; for advice about your own circumstances, you should consult a professional adviser.
**May 2008**

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# What is Equity Release?

Equity release is a way of using the value of your home without having to move. You can get a lump sum or an income, depending on the scheme. There are two main types.

### Lifetime mortgages

You take out a mortgage on your home but pay nothing until the property is sold, usually on your death. The interest is added to the loan, which means that the amount you owe grows faster than a normal loan. At 7 per cent interest, your loan will roughly double every 10 years, but reputable companies guarantee that you will never have to pay more than the value of your home (a 'no negative equity' guarantee). You can keep the cost down by using a 'drawdown' mortgage that lets you draw money from the scheme as you need it.

### Home reversions

You sell all or a percentage of your home to a reversion company, but keep the right to live there for the rest of your life. When the house is sold, usually on your death, the company gets the same percentage of the property's value at the time. Because it does not know when it will get its money back, you will not get the full value of your property. The maximum amount depends on your life expectancy, but is usually around a third for a woman aged 65.

### Is it right for you?

Equity release is a useful option if you own your own home, but it does not suit everyone and there are other options, such as 'trading down' to a cheaper property. There is a minimum age (55, say, depending on the company). And if you receive pension credit or council tax benefit, they may be lost if you have extra money from an equity release scheme. Before going ahead, check whether you are entitled to any state benefits, and consult an independent financial adviser with specialist equity release qualifications.

# Case Studies

Annie, aged 75, lives in number 1 Orchard Gardens, next to Boris and Betty (aged 75 and 80) at number 2 and Charlie (66) at number 3.

## Annie

**Annie's finding it hard to manage, as gas and electricity bills continue to soar and council tax eats up more and more of her income. She's used up most of her savings, and now the roof needs complete replacement. Her home is worth £120,000.**

Annie would consider moving to a smaller home if the right house came up, particularly if it would cost less to run – but there are not many suitable properties in her area and trading down wouldn't raise much cash after taking into account the costs of moving. She could rent out a room, but she would worry about finding a suitable tenant.

Annie has been making enquiries about equity release. First, though, she should check whether she's missing out on any state benefits, or whether she can get a grant for repairing her home. She can find out what help is available for house repairs in her area by contacting her local Home Improvement Agency; Foundations, the national co-ordinating body for home improvement agencies will know if there is one in her area.

Annie also contacts her local pension service, which advises her that she can get an extra £20 a week in pension credit and council tax benefit. She would lose this if she took out equity release to improve her income. These benefits shouldn't be affected if she takes out a £10,000 equity release loan and immediately uses it all to carry out essential repairs to her home, but this is a complex area so it's best to check with a local advice agency.

## Boris and Betty

**Boris has Parkinson's disease. Betty is finding it hard to care for him on her own, so they are considering equity release to pay for a bit of help.**

Boris and Betty shouldn't rush into equity release. Annie - who went through this with her late husband – points out that even though their savings are too high to qualify for state help with the cost of care, Boris is

entitled to Attendance Allowance, which is not means-tested. Boris is also entitled to an assessment of his care needs from their local authority social services department. Even if they are not entitled to financial help now, if Boris needs to go into residential care later on, their income will be means-tested. The value of the house will not be taken into account as long as Betty carries on living there, but any lump sum they take out through equity release will be included in the means-test and reduce the help available.

### Charlie

**Charlie has a good pension, but he wants to travel the world. He also wants to help his son out financially. He's wondering whether equity release could be the answer – and cut the inheritance tax bill on his £400,000 house, too.**

Charlie could consider using some of his savings, as borrowing will certainly cost him more. At 66, he's also quite young – if he takes out a lifetime mortgage for £50,000 now, he could owe around £100,000 when he is 76. He may need the money later on. And although equity release would certainly cut his inheritance tax, the amount he pays in mortgage interest might come to more than the tax saved. In the end, Charlie takes out a lifetime mortgage for £20,000 to give his son, and uses savings to pay for the trip.

# Frequently Asked Questions

**Q What happens if I want to move?**

**A** Most lifetime mortgage companies, and some reversion companies, allow you to transfer the scheme to a new property, provided that the property is acceptable to them. If a scheme cannot be transferred, you will have to pay it off and may not have enough left for a new home – so check any restrictions carefully.s

**Q Will it affect my tax and benefits?**

**A** Means-tested benefits may be affected, but it depends on the type of benefit and what you want the money for. Age Concern has a factsheet. The money you draw out of the property is not taxable, but if you draw out more than you need, and save some, you will have to pay tax on any interest.

**Q Can I change my mind?**

**A** You can pay off a lifetime mortgage, or switch lenders, but there is likely to be an early repayment charge. It is difficult to cancel a reversion scheme.

**Q Can I have a scheme if I am married?**

**A** Yes, you can take out joint schemes that last as long as you both live. If you get married after taking out a scheme you may be able to transfer the scheme into both your names, but otherwise your new partner may not have the right to stay in the property after your death.

**Q What protection do I have?**

**A** Lifetime mortgages, home reversions and people advising on them are regulated by the Financial Services Authority and you can complain to the Financial Ombudsman Service if necessary. The trade association SHIP (Safe Home Income Plans) also sets minimum standards for member companies.

Always use a company that is regulated by the Financial Services Authority. Some unregulated companies get round the rules by offering 'sale and rent back' schemes that do not give you the right to stay in your home for the rest of your life

# Useful Contacts

**Age Concern England**
Astral House
1268 London Road
London SW16 4ER

Tel: 0800 00 99 66
www.ageconcern.org.uk
Useful guides:
Raising income or capital from your home
Equity release and income-related benefits

**Financial Services Authority**
25 The North Colonnade,
Canary Wharf,
London E14 5HS
Consumer helpline: 0845 606 1234
www.moneymadeclear.fsa.gov.uk
Useful booklet: Equity release schemes – raising money from your home

**The Financial Ombudsman Service**
South Quay Plaza
183 Marsh Wall
London E14 9SR

Consumer helpline: 0845 080 1800
www.financial-ombudsman.org.uk
Foundations
Bleaklow House
Howard Town Mill
Glossop
Derbyshire
Sk13 8HT
Tel: 01457 891909
www.foundations.uk.com

**The Pension Service**
Tel: 0845 60 60 265
www.thepensionservice.gov.uk

**SHIP** (Safe Home Income Plans)
83 Victoria Street
London
SW1H OHW
Tel: 0870 241 6060
www.ship-ltd.org

# Other guides in the series


**Denman College**
Marcham, Abingdon,
Oxfordshire OX13 6NW

**Telephone:** 01865 391991
**Fax:** 01865 391966
**Email**: info@denman.org.uk
**Website: www.theWI.org.uk/college**

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