Factsheet 65

Equity release

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1 What is equity release?

Equity release allows homeowners aged 55 and over to use the equity (money) tied up in their homes to assist with income or capital needs. There are two main types. In both cases, the person taking out equity release (the '*borrower*') retains the right to live in their home.

The most common type of equity release is a lifetime mortgage (see section 4). This is a loan secured against the property that is not usually paid back until the last living borrower dies or moves into permanent long-term care. You may make regular interest payments on the loan, or the interest may be '*rolled*

3.6 Other changes in circumstances

Consider changes to your circumstances that may affect a product, for example someone coming to live with you at a later stage. If a younger family member or friend moves in to provide companionship or care, they must sign an occupancy waiver releasing their rights to the property. They should obtain legal advice before doing so.

If you take out a product as a single person and get married, enter into a civil partnership, or ask a partner to move in, you may not be able to transfer the product into your joint names. Your partner may have to pay off the lifetime mortgage or home reversion if you die or mov

3.9 Benefit checks

There are two types of LPAs:

‘***financial decisions LPA***’ giving your attorney authority to make decisions about your financial affairs

‘***health and care decisions LPA***’ giving your attorney authority to make decisions about your health and personal care.

A financial decisions LPA can be used even if the donor has the mental capacity to manage their own financial affairs, but it must be registered with the Office of the Public Guardian first.

Equity release providers may or may not agree to deal with an EPA or LPA holder as the bona fide representative of the donor. You need to discuss this with your equity release adviser at your first meeting if you are an EPA or LPA holder for someone else.

If you have been granted an EPA or LPA, seek independent legal or financial advice regarding your status and your right to represent the donor in financial transactions. You can get information from the Office of the Public Guardian on 0300 456 0300. For more information, see factsheet 22, *Arranging for someone to make decisions on your behalf*.

4 Lifetime mortgages

4.1 Roll-up lifetime mortgages

A roll-up lifetime mortgage is a loan secured against your home. The provider gives you a lump sum, but you do not have to make repayments of interest or capital. Instead, the interest is ‘*rolled up*’ and added to the total loan. The full amount of rolled-up interest and loan is designed to be repaid when you die or move into permanent long-term care.

How much you can borrow varies according to the provider, the value of your property, and your age. The younger you are, the less you can borrow, as you are likely to live longer and accumulate greater debt.

Interest is compounded on a roll-up lifetime mortgage, meaning you pay interest on interest. The amount owed can grow very quickly. For example, a loan amount of £20,000 can double in 11 years on an interest rate of 6.5 per cent a year.

It is important to choose a product which guarantees ‘*no negative equity*.’ This means you will not have to pay back more than the sale proceeds of your property, even if this is less than the amount owed, so long as you comply with certain terms and conditions. This only applies if the property is sold following death or going into permanent long-term care.

Most lifetime mortgages offer fixed interest rates to protect against future rate increases and ensure the loan does not go above a certain level. You will not benefit if interest rates fall. A good provider guarantees no repossession in your lifetime providing contract terms and conditions are met. Get independent financial and legal advice before proceeding.

4.2 Drawdown lifetime mortgages

With this type of lifetime mortgage, instead of taking the amount you borrow as one large lump sum, you take a smaller initial sum and draw down further amounts from a pre-agreed cash facility, either when needed or on a regular basis.

Because you take out smaller amounts of money over a period of time, your debt grows more slowly than if you take a whole sum at the start. The interest rate charged is the interest rate that applies at the time of withdrawal, so you may end up with a series of different interest rates applied to the various withdrawals.

Note that lenders reserve the right to withdraw the cash facility, so there is no guarantee that money earmarked for future projects will be available. Additionally, if you lose mental capacity, no further funds can be released without an LPA in place.

4.3 Interest serviced lifetime mortgages

As with any lifetime mortgage, you take out a loan against the value of your home and receive a lump sum, which you do not have to repay until a later stage. However, you make regular interest payments on the loan.

If you decide to stop making these payments, the loan converts to a roll-up lifetime mortgage. This is an important protection if you borrow jointly because if one borrower dies and the surviving borrower has a reduced income, they may not be able to afford the interest payments.

4.4 Advantages and disadvantages

The following apply to the various types of lifetime mortgage.

Advantages

You receive a tax-free cash lump sum to spend as you wish.

You retain ownership of your property, so may benefit from any increase in value.

Paying the interest even for a short period of time can delay the impact of roll up and may save the borrower's estate money.

Disadvantages

Equity release reduces the value of your estate and the amount that goes to your beneficiaries when the property is sold.

It may work out more expensive in the long term than downsizing.

With lifetime mortgages, you may face early repayment charges.

If your needs change after taking out a lifetime mortgage product, for example if you need care at home or to downsize, there may be insufficient equity left in your home to fund this.

6 Safeguards

6.1 The Financial Conduct Authority (FCA)

Individuals and firms selling or giving advice on equity release products must be FCA-authorised. There are FCA rules on what advisers must do

6.2 Equity Release Council members

Many lifetime mortgage and home reversion providers are members of the Equity Release Council. Under their '*overarching principles*,' members agree to treat customers fairly and always act in their best interests.

You must be provided with fair, simple and complete information about a product, including a clear explanation of its benefits and limitations and your obligations under the contract.

You must be given a suitability report, ideally in writing, explaining why the adviser believes that equity release is suitable for you and why the particular product being recommended suits your individual circumstances.

As a matter of good practice, you should be sent or offered a written record of suitability information provided over the telephone – request a copy if this is not offered.

You must be able to choose your own solicitor to carry out the legal work in connection with the product.

Products should meet certain standards. For example, with lifetime mortgages, interest rates should be fixed. If they are variable, there should be a '*cap*' (upper limit) which is fixed for the life of the loan.

You should have the right to remain in your property for life or until you need to move into permanent long-term care, provided the property remains your main residence and you abide by the terms and conditions of your contract.

You should be able to move to another property if certain criteria are met, such as the new property being acceptable to your product provider as continuing security for your equity release loan.

For lifetime mortgages, customers should have the right to make

7 Choosing an adviser

You should always seek advice from an FCA-authorised and properly qualified equity release adviser, who is not restricted to selling products from just one or two firms.

The MoneyHelper website has a directory of retirement advisers and its website has information on how to find the right one.

The Equity Release Council has member directories of equity release advisers, providers, and solicitors with equity release experience.

Choose a solicitor who acts on your behalf only, not one recommended by the company providing the equity release.

Things to consider

When choosing an adviser, the following tips and questions may be helpful:

check the adviser is FCA authorised

have they passed specialist equity release exams?

are they independent or restricted to offering products from one or two providers?

what experience do they have in advising on these products?

have they assessed whether a product is appropriate for your needs and circumstances, taking into account all the issues outlined in section 6.1?

have they discussed all alternative options before you proceed?

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.

Useful organisations

Action Fraud
www.actionfraud.police.uk
Telephone 0300 123 2040

National fraud reporting centre, providing advice and information about fraud and scams.

Age UK

Age UK provides advice and information for people in later life through our Age UK Advice line, publications and online. Call Age UK Advice to find out whether there is a local Age UK near you, and to order free copies of our information guides and factsheets.

Age UK Advice
www.ageuk.org.uk
0800 169 65 65
Lines are open seven days a week from 8.00am to 7.00pm

In Wales contact

Age Cymru Advice
www.agecymru.org.uk
0300 303 4498

In Northern Ireland contact

Age NI
www.ageni.org
0808 808 7575

In Scotland contact

Age Scotland
www.agescotland.org.uk
0800 124 4222

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