

Money Advice Hub Debtipedia®

Fact Sheet H-008: Equity Release



Contents

| | |
|--|------------|
| Overview | 1-2 |
| Equity Release Schemes | 2 |
| Rules regarding Equity Release | 2-3 |
| Fees | 3-4 |
| Advantages of Equity Release | 4 |
| Disadvantages of Equity Release | 4-5 |
| Equity Release Calculators | 5 |
| Consider other options | 5-6 |
| Independent Financial Advice | 6 |
| Complaints | 6 |
| Contacts | 6-7 |

Overview

The equity in your mortgaged property is the difference between the value of your home and the total of the mortgage and any loans that you have secured on it. Equity release is an agreement allowing you (without leaving your home) to release a lump sum payment, regular smaller payments, or both. To be eligible you normally need to be at least 55 years old.

How equity release can help

If you want to repay an existing mortgage, increase your income, pay for care needs or clear debts, equity release may be a useful option.

Money Advice Hub is authorised & regulated by the Financial Conduct Authority FRN: 631799. A not for profit community interest company registered as Debt & Money Advice Support CIC (9203918) in England & Wales, limited by guarantee. Registered office address: Money Advice Hub, King's Lynn Innovation Centre, Innovation Way, King's Lynn, Norfolk PE30 5BY.

☎ 0333 305 7648* - Calls are at local rates* ✉ help@moneyadvicehub.org.uk 🌐 www.moneyadvicehub.org.uk

Will equity release affect my benefits and tax?

Your income related benefit entitlement can be affected if you use your equity release to clear your debts and you may still be treated as having the money, even after you have used it to pay your debts off. It is essential to inform the Department for Work and Pensions (DWP) or local authority about the money you receive from equity release. You will need to check how releasing equity will affect your personal tax position, but you don't usually have to pay tax on equity you release from your main home.

Equity Release Schemes

There are two main types of equity release schemes: lifetime mortgages and home reversion, both work differently and the option you choose will depend on your personal circumstances.

Lifetime mortgages

A lifetime mortgage will release funds in one lump sum or in smaller amounts over a period of time. An agreement will be made with the scheme provider to decide the maximum amount of money that you can borrow. You will remain the owner of your home. The lifetime mortgage will carry interest and you choose to either make repayments or let the interest build up. Both the loan and interest will be paid back when you die or move into long-term care.

Home reversion

Under this scheme, a home reversion company will purchase all or part of your home. You will then receive a lump sum payment or regular monthly payments and can remain in the property until you die, and there are no rent payments to make either.

Rules regarding Equity Release

Both lifetime mortgages and home reversion schemes are regulated by the Financial Conduct Authority (FCA) (www.fca.org.uk). Firms which offer these schemes must follow the FCA's rules about equity release. The FCA's rules state that equity release firms must take reasonable steps to make sure that any equity release products they recommend to you are suitable for you. In addition, when the firm considers whether equity release is suitable for you, they should take into account how it will affect any benefits you receive as well as your tax position.

Equity Release Council

The Equity Release Council (ERC) is a not-for-profit organisation. They represent different types of firms involved in equity release, for example lenders, qualified financial advisers, solicitors and

Money Advice Hub is authorised & regulated by the Financial Conduct Authority FRN: 631799. A not for profit community interest company registered as Debt & Money Advice Support CIC (9203918) in England & Wales, limited by guarantee. Registered office address: Money Advice Hub, King's Lynn Innovation Centre, Innovation Way, King's Lynn, Norfolk PE30 5BY.

☎ 0333 305 7648* - Calls are at local rates* ✉ help@moneyadvicehub.org.uk 🌐 www.moneyadvicehub.org.uk

other industry professionals. Their aim is to provide you with information and protection if you are considering an equity release scheme. They also provide guidance to their members about how entering into an equity release scheme should work.

Firms involved in equity release and who are ERC members should also follow the FCA's rules about equity release. In addition they must follow rules and guidelines that the ERC has set out. Choosing a firm that is an ERC member, will give you extra safeguards, helping ensure that equity release is a realistic and suitable option for you.

Equity Release Council product standards

The ERC has certain standards that they recommend equity release products should meet (visit ERC's website www.equityreleasecouncil.com). ERC members should only say that a product they are offering meets these standards if it meets all of them. Check whether any equity release product that you are considering meets all of the ERC's standards:

- For lifetime mortgages, interest rates must be either fixed or, if they are variable, there must be a maximum interest rate for as long as the scheme lasts
- You must have the right to stay in your home for the rest of your life or until you move into long-term care. This applies only if your property remains your main home and you keep to the terms of the contract
- You are allowed to move to another property as long as the equity release firm agrees that the new property is suitable as security for your equity release loan
- When your property is sold, neither you nor your estate will have to pay anything else if the money raised is not enough to clear the loan to your equity release provider
- ERC members must make sure you have received independent legal advice before you enter into an equity release scheme. Check that any solicitor you get advice from is an ERC member. Members are committed to the ERC's standards and principles

Before entering into any equity release plan, you must be given a clear and accurate explanation of what your equity release plan involves. The advantages, limitations and the terms and conditions of your plan should be clearly explained.

Fees

The following are examples of the different fees you are likely to be charged for when entering into an equity release agreement.

A fee when you have your property surveyed

This is usually paid when you apply. The amount will depend on the estimated value of your home.

Money Advice Hub is authorised & regulated by the Financial Conduct Authority FRN: 631799. A not for profit community interest company registered as Debt & Money Advice Support CIC (9203918) in England & Wales, limited by guarantee. Registered office address: Money Advice Hub, King's Lynn Innovation Centre, Innovation Way, King's Lynn, Norfolk PE30 5BY.

☎ 0333 305 7648* - Calls are at local rates* ✉ help@moneyadvicehub.org.uk 🌐 www.moneyadvicehub.org.uk

An application fee

This is paid when your equity release transaction goes through. You may be able to borrow a bit extra from your equity release plan.

Legal fees

This is paid to your solicitor for the legal work they have provided.

Advice fee

Your financial adviser may charge you a fee for their advice, others may receive a commission from the lender that you take out an equity release plan with.

You should always check what fees you will be charged before agreeing to anything related to an equity release scheme.

Advantages of Equity Release

- Provides you with a cash lump sum or regular monthly payments, helping towards regular bills, home improvements, and care costs etc
- Normally you can remain in your property for as long as needed
- You may be able to move, providing the new property is acceptable to the equity release firm
- Part of your property value can be set aside as inheritance for your family
- You will not have to pay rent to the equity release provider
- For lifetime mortgages, you may be able to choose whether to pay back interest or allow it to build up
- The loan is only paid back when you die or when the property is sold
- For some lifetime mortgages, interest rates are either fixed or they cannot rise above a set level
- For some equity release schemes, a guarantee is in place, that the total amount you owe cannot be greater than the value of your property
- You do not pay tax on the equity released from your main home

Disadvantages of Equity Release

- The equity immediately becomes less
- You may only be able to leave a smaller inheritance when you die
- A lifetime mortgage means, securing further borrowing against your home
- For home reversion schemes, home reversion companies will usually pay a lot less than the full market value of their share of your property and you will no longer be the sole owner

Money Advice Hub is authorised & regulated by the Financial Conduct Authority FRN: 631799. A not for profit community interest company registered as Debt & Money Advice Support CIC (9203918) in England & Wales, limited by guarantee. Registered office address: Money Advice Hub, King's Lynn Innovation Centre, Innovation Way, King's Lynn, Norfolk PE30 5BY.

☎ 0333 305 7648* - Calls are at local rates* ✉ help@moneyadvicehub.org.uk 🌐 www.moneyadvicehub.org.uk

- If you die or sell your home shortly after entering an equity release scheme agreement, you could lose money. There might also be early repayment charges if you decide to repay within a shorter period of time
- If house prices fall, you may owe a greater percentage of your home's value.
- With a lifetime mortgage, if you live long enough, you may end up owing 100% of the property's value
- The money you obtain from an equity release scheme could affect the amount of benefits you are entitled to
- Permission may be required from the provider for someone else to move in, such as a relative or carer
- You usually have to get permission from your provider to move to another property
- You usually have to pay costs for arranging the transaction. For example, to have your property valued and for solicitors legal fees
- You will remain responsible for paying your usual bills, such as council tax, gas and electricity. You may also need to pay for buildings insurance
- You will usually be responsible for the repairs and maintenance of the property too

Equity Release Calculators

You may be tempted to use a website that uses an equity release calculator. You normally have to provide your personal details before they give you further information and they may then pass your information on to other organisations who may then contact you to try and sell you unsuitable equity release products.

Consider other options

There may be alternative ways of raising funds, rather than choosing an equity release scheme, that are more suitable for you.

- **Unsecured borrowing** - an unsecured loan may be a cheaper alternative if you only want to borrow a small amount and you can afford repayments out of your usual income
- **Extend your mortgage** - If you haven't yet cleared your current mortgage, you may be able to extend your mortgage and release some more money. Whether your lender will allow this, will depend on their policy, your age and circumstances. It is always important to seek independent financial advice.
- **Move to a cheaper property** - Selling your home and moving to a cheaper property may be more beneficial. This would enable you to release money from your home and remain the owner of your new property.
- **Benefits and grants** - If you are on a low income and need money for home improvements or to adapt your home because of a disability, you may be eligible for a grant

Money Advice Hub is authorised & regulated by the Financial Conduct Authority FRN: 631799. A not for profit community interest company registered as Debt & Money Advice Support CIC (9203918) in England & Wales, limited by guarantee. Registered office address: Money Advice Hub, King's Lynn Innovation Centre, Innovation Way, King's Lynn, Norfolk PE30 5BY.

☎ 0333 305 7648* - Calls are at local rates* ✉ help@moneyadvicehub.org.uk 🌐 www.moneyadvicehub.org.uk

from your local authority.

Independent Financial Advice

You should always seek professional advice before entering into an equity release scheme. It is very important that you fully understand the terms and conditions before entering into any new agreement. It is advisable to search on the ERC's website to check that the financial adviser is a member of the Equity Release Council.

You may also wish to contact The Society of Later Life Advisers (www.societyoflaterlifeadvisers.co.uk). They are a not-for-profit organisation and their members are fully trained financial advisers who will give you advice about issues relevant to you in later life.

Complaints

If you have a complaint about a financial adviser or an equity release provider, ask for a copy of their complaints procedure. You should make your complaint in writing and if you are unhappy with their response, or if your complaint has not been resolved after eight weeks, contact the Financial Ombudsman Service (www.financial-ombudsman.org.uk).

Contacts

Law Society

The independent professional body for solicitors. You can visit their website and search for a solicitor near you.

www.lawsociety.org.uk

Equity Release Council

Not-for-profit industry body for different types of firms involved in equity release.

T: 0844 669 7085

www.equityreleasecouncil.com

Society of Later Life Advisers

Membership organisation for financial advisers who are trained to provide advice on later life

Money Advice Hub is authorised & regulated by the Financial Conduct Authority FRN: 631799. A not for profit community interest company registered as Debt & Money Advice Support CIC (9203918) in England & Wales, limited by guarantee. Registered office address: Money Advice Hub, King's Lynn Innovation Centre, Innovation Way, King's Lynn, Norfolk PE30 5BY.

☎ 0333 305 7648* - Calls are at local rates* ✉ help@moneyadvicehub.org.uk 🌐 www.moneyadvicehub.org.uk

issues.

T: 0333 2020 454

www.societyoflaterlifeadvisers.co.uk

Financial Conduct Authority (FCA) register

The Financial Services Register is a public record that shows details of firms, individuals and other bodies that are, or have been, regulated by the FCA.

<https://register.fca.org.uk/>

Financial Ombudsman Service

Helps to resolve individual complaints between financial businesses and their customers.

T: 0800 023 4567

www.financial-ombudsman.org.uk

Legal Ombudsman

Helps to resolve complaints about the service you have received from your solicitor.

T: 0300 555 0333

www.legalombudsman.org.uk

Money Advice Hub is authorised & regulated by the Financial Conduct Authority FRN: 631799. A not for profit community interest company registered as Debt & Money Advice Support CIC (**9203918**) in England & Wales, limited by guarantee. Registered office address: Money Advice Hub, King's Lynn Innovation Centre, Innovation Way, King's Lynn, Norfolk PE30 5BY.

☎ 0333 305 7648* - Calls are at local rates* ✉ help@moneyadvicehub.org.uk 🌐 www.moneyadvicehub.org.uk