

Council of Mortgage Lenders
Equity release leaflet – unlocking the value of your home

What is equity release?

Equity is the difference between any mortgage you may have and the value of your home. Equity release is a way of unlocking the value of your property, without having to move home. It is used mostly by older homeowners who either have paid off their mortgage altogether or have only a small amount left to pay.

You can release the value of your home to give yourself a lump sum or a regular income (or both). If you live in the property until you die, the money from its sale is used to pay the lender before anything left over is paid to your beneficiaries. If you sell the property before you die, you repay the money you borrowed from the lender. With some types of loan you might also have to make regular interest payments.

This booklet gives some basic information about equity release and tries to answer some of the questions you should ask yourself and your advisers if you are considering this option. But this booklet is not a full guide, so if you are considering equity release you should also get expert financial and legal advice. Equity release can also affect the amount you are able to leave to your family or other beneficiaries after you die, so you may also want to talk through your plans with them.

How can I release the equity in my property?

There are two main ways you can do this.

- **Taking out a mortgage**

There are special types of loans, usually designed to run for the rest of your life, called **lifetime mortgages**. You borrow money secured against the value of your home to give you a lump sum or a regular income. The loan is repaid to the lender when your property is sold. You continue to own your home.

- **Selling your home (or part of it)**

This is normally called a **reversion** or **part reversion scheme**. You sell your home, or a part of it, to a reversion company that allows you and your partner to continue to live there for the rest of your lives. After you both die, (or move out for whatever reason) the proportion of your home that you sold becomes the property of the reversion company. Anything left over passes to your estate.

What will it cost?

The costs will depend on the type of plan you choose, its terms and the amount of equity you want to release. You will find more information about the different types of plan and their costs in this leaflet. But remember that the examples we provide are only illustrations. You

should ask the lender or reversion company for a detailed breakdown of the costs. If you get your lifetime mortgage from a lender regulated by the Financial Services Authority (FSA), the lender will explain these costs to you in a document called the Key Facts Illustration (KFI).

Taking out a mortgage

There are two main types of lifetime mortgage.

- **Interest-only mortgages**

You borrow a lump sum secured against the value of your home. You pay interest on the loan each month, and the lump sum you originally borrowed is repaid when your home is eventually sold. You need to be able to afford the interest payments out of your pension or other income.

The interest rate may be fixed or variable. But if it is variable, and your pension or other source of income is fixed, you will find it more difficult to meet your repayments if interest rates rise.

One option may be to invest the lump sum you borrow, perhaps in an annuity that gives you a regular income. You use the income to pay the interest on the loan, and what is left over is yours to spend. But because annuity rates are low and depend on your age, this type of loan is really only suitable for very elderly homeowners.

Here is an example.

Your home is worth £100,000. You borrow £30,000 at a fixed rate of interest of 6.5%. Your interest payments would be £162.50 a month. After 15 years, you will have paid £29,250. You still owe the original £30,000, which would be repaid from the proceeds of selling your house. Any increase in the value of your home would belong to you or your surviving family.

- **Rolled-up interest loans**

The lender gives you a lump sum or a monthly income (or both), based on the value of your home. Nothing is repaid until you die or the property is sold, but interest is added to the amount you have borrowed each year. This is 'rolled up' over the life of the loan.

The amount you can borrow depends on how much your home is worth and on your age. The older you are, the greater the percentage of your home's value you can borrow. You need to check whether the rate of interest you will pay is fixed or variable. If it is variable, it could also be capped, which means it cannot go above a certain level. That will allow you to be sure about the maximum amount of interest added each year and the amount you owe at any time.

Here is an example.

Your home is worth £100,000. You borrow £30,000 at a fixed rate of interest of 6.5%. There are no monthly payments. Instead, interest is added on and rolled up over the lifetime

of the loan. Because you do not pay off any interest as you go along, the amount you owe mounts up more quickly so that after 15 years you owe the lender £77,155. This includes the £30,000 you originally borrowed. When your home is sold, £77,155 must be paid to the lender. If it is still worth £100,000, the amount left (£22, 845) belongs to you or your family. If the value of your home has increased, the amount left to you or your family will be more.

It could happen that your home loses value during the period of your loan. Most lenders offer a 'no negative equity' guarantee to cover this situation. This means that the amount you pay back to the lender will never be more than the value of your home. Even if the amount you borrow (plus the rolled-up interest) is more than your property's selling price, you will not have to repay any more than the amount your home is sold for, as long as you maintain your home properly and fulfil your part of the mortgage contract.

Here is an example.

Your home is worth £150,000. You borrow £45,000 at a fixed rate of interest of 7%. There are no monthly payments. Interest is added on and rolled up over the lifetime of the loan. After 20 years you owe the lender £174,136. This includes the £45,000 you originally borrowed. If, after you died, the house was sold for £150,000, this is all that would be paid back to the lender.

- **Shared and protected appreciation mortgages**

There is a third type of lifetime mortgage which is not currently available, but which has been offered in the past and may be offered again in the future. You borrow a lump sum based on the value of your home and nothing is repaid until you die or the property is sold. At that stage, the amount you originally borrowed is paid back, together with an agreed percentage of the amount by which your home has increased in value.

This means that the amount of 'interest' you pay depends on what has happened to the value of your home since you took out the loan. If its price has gone up sharply, the 'interest' you pay is higher. If its price has risen more slowly, the lower the amount of 'interest' you pay. Either way, you will not know the full cost of the loan until it is finally paid back.

It may be possible to take out a protected appreciation mortgage so you can pay a specific amount of interest. The interest is worked out at the beginning so you can work out how much you will owe at any stage.

Here are some examples.

Your home is worth £100,000. You borrow £30,000 and agree that the lender will also get 50% of any increase in your property's value. When you or your family sell your home, the £30,000 you originally borrowed is repaid, plus half of any amount by which your property has grown in value. If you sold your home for £150,000, that would be £50,000 more than it was worth when you took out the loan. You or your family will then owe the lender £55,000. This is made up of the £30,000 you originally borrowed, plus £25,000 - half of the £50,000 increase in the property's value. If you sell your home for £120,000, you owe the lender £40,000 (the £30,000 you originally borrowed, plus £10,000 – half of the £20,000 increase in the property's value). If there is no increase in the property's value, or even if it reduces, and

it sells for only £90,000, you will only have to repay the £30,000 you borrowed in the first place.

Selling your home (or part of it)

With a reversion scheme, you agree to sell all or part of your property for an agreed amount. You can receive this as a lump sum, an income or both. The money you get will not reflect the full market value at the time you take out the scheme. This is because the reversion company will not get its money back until you die or move into a care home or another property. Usually, you will get between 20% and 50% of its current market value, depending on your age (and your partner's).

When you die, the percentage of your home that you sold belongs to the reversion company. If you sold your entire home to the company, it will own your home outright, including any increase in its value since you agreed to sell it. If you sold only a percentage of your home to the company, the rest will pass to your estate. Some schemes offer a rebate for your family if you die within the first few years of signing up to a home reversion scheme.

Here are two examples.

Your home is worth £100,000. You agree to sell your property entirely to the reversion company for half its current value. You receive £50,000 now, and you can live in the property for the rest of your life. You will not owe the reversion company anything. When you die, the reversion company own your home, whatever it is worth.

Your home is worth £100,000. You agree to sell half your property to the reversion company for half its current value. You receive £25,000 now. When you die, the reversion company owns half the house, and the other half will pass to your estate. So if the house is sold for £150,000, £75,000 will go to the reversion company and £75,000 will go to your estate.

Costs of entering into an equity release scheme

There are some other costs you may have to pay if you choose an equity release scheme. These could include the following.

- **Completion, arrangement or application fees**

These are usually between £300 and £600 and cover administration costs. Some lenders and reversion companies refund these fees when the loan has been set up. You should ask your lender or reversion company about any costs you may have to pay later if you want to increase the size of your loan in the future.

- **Valuation fees**

For a lifetime mortgage the lender will need to value your property to make sure that it provides good security for the loan. For a reversion scheme, the company will need to value your property to see how much they are willing to pay you for the percentage of your home you sell to them, the valuation fee will depend on how much your home is worth, with higher charges for more expensive properties.

For a £100,000 property, the fee is likely to be between £200 and £300. Some companies may refund this when the loan is completed.

- **Solicitors' fees**

These are usually between £300 and £600 and cover the legal work carried out on your mortgage. You should ask your solicitor for a breakdown of the fees. You may have to appoint your own solicitor, rather than using the same one as the lender. You will have to pay your own and the lender's legal costs.

- **Insurance**

You will need to take out buildings insurance for the period that the plan is in place. This will usually cost between £200 and £300 a year.

- **Early repayment charges**

To cover the costs involved in setting up a lifetime mortgage, lenders may make a charge if you repay it early. A lifetime mortgage usually continues until you die so you may have to pay an early-repayment charge if you want to pay it off for any other reason.

- **Mortgage intermediary's arrangement fee**

You may have to pay a fee to the person who arranges your equity release scheme. The FSA's rules say that all lenders and mortgage intermediaries who lend, advise on, or arrange lifetime mortgages must be authorised by them. If you are using the services of a mortgage intermediary who charges a fee, the charge must be clearly explained to you. Not all mortgage intermediaries charge a fee but those who do usually charge between 0.5% and 1.5% of the amount you are borrowing.

Important issues for you to consider

- Is equity release right for you? Would moving to a less expensive property be a better way of releasing money tied up in your home? Have you got other nest eggs, such as premium bonds or savings, which you could use?
- Not everyone is eligible for equity release. You need to own your own home and be at least 55 years old. Generally, your home needs to be worth at least £40,000 although different lenders and reversion companies have different rules. You may not be eligible if your home is built from anything other than traditional materials, such as brick or stone. And with some lenders and reversion companies you will have to borrow a minimum amount of money.
- Choosing equity release will affect you over the long term. You need to be happy with the arrangements and confident that it suits your circumstances, now and in the future.

- These days, people are living longer. If you take out an equity release plan too early in life, you may not have enough value left in your home to move to another property later on.
- Using the equity in your home will affect the amount you are able to leave as an inheritance, so you may want to discuss this with your family. Your solicitor may also be able to help. It is also a good idea to make sure that your will is up to date.
- Consider carefully which scheme is right for you. Compare different deals and lenders and reversion companies. They will not mind you asking questions and will respect your need to think things over before you decide.
- We strongly recommend that you get expert financial advice. Some advisers charge you for advice, others are paid by lenders and reversion companies. You can also check whether the adviser is tied to a specific range of products or can recommend from the whole market.
- The legal advice you receive should include a clear explanation of the terms and conditions of your loan.
- As long as you are releasing equity from your main home, any lump sum or income you receive is tax-free. But if you choose to invest the money, you may have to pay tax on the returns on your investment. It is generally not a good idea to borrow money purely to invest it. A realistic rate of return on the investment is almost certainly going to be less than the interest rate you would be charged on a lifetime mortgage. Whoever advises you on a lifetime mortgage should not encourage you to borrow more than you need.
- Ask about the effect of any lump sums or income on any state benefits you receive. You may want to discuss this with a financial adviser. You should also remember that the rules on benefits could change in the future.
- Check whether the Financial Services Authority (FSA) regulates the lender or adviser that you buy your equity release product from. You can use the FSA's website (www.fsa.gov.uk) to do this or phone the FSA on 0845 606 1234.
- Since 31 October 2004, the FSA has regulated most mortgage sales, including lifetime mortgages but not reversions. This is because reversion schemes involve selling all or part of your property – no loan is involved. If your mortgage is regulated by the FSA, you will get clear information presented in a way that makes it easier for you to compare loans from different lenders. The FSA's rules say that:
 - o information about prices in advertising and marketing information must be clear;
 - o firms must make sure that they offer you a suitable equity release product based on the information you give them; and
 - o the charges must not be too high.

- Some providers belong to the Safe Home Income Plan (SHIP) group. SHIP was set up in 1991 to promote better value for customers. Its code of practice has the following three main principles.
 - Members should provide fair, simple and full explanations of their plans.
 - Your legal work should always be carried out by the solicitor you choose. Your solicitor must sign a certificate saying that they have explained the scheme to you.
 - The certificate must say clearly what is the main cost to your assets and estate (that is, the amount to be paid when you die and the percentage of your property being sold).

Frequently asked questions

Below are some of the most common questions asked about equity release. But the answers are only general. Ask your financial adviser, solicitor and lender or reversion company how they apply to you. You should also consider whether there are other questions you need to ask.

Are there any restrictions on what I can do with the money I raise?

No, you can use it for anything you like, but think carefully about how much you need to borrow. The more you borrow, the more interest will build up. This will increase the sum that has to be paid back to the lender when the property is sold.

What are the risks involved with equity release?

These depend on the type of product you choose. For example, with a rolled-up interest loan, the amount you owe continues to grow in size and will usually double after seven to 10 years depending on the interest rate. The worst outcome is that there will be no value left in your home to pass on to your family. With a reversion scheme, you do not get the full market value of your home at the time it is sold and do not benefit from rising house prices.

Will I still own my home?

Yes, if you take out a lifetime mortgage. But with a reversion scheme, the reversion company will own all or part of the property, although you can live in it for the rest of your life.

Will I be able to move house?

It depends on the type of loan you choose. Many can be transferred to a new home, as long as the new property provides acceptable security for the loan. But if you are moving to a cheaper property, you may have to repay some of the loan and pay a charge to the lender.

What happens when I die?

Your home will be sold once you and your partner have died. If you have a lifetime mortgage, the proceeds will be used to repay the amount left and any money left goes to your

estate. If you have a reversion scheme, the reversion company will then own all or part of your property.

What happens if I die soon after taking out the loan?

That depends on the terms and conditions of your loan. Some lenders and reversion companies make charges if the loan is paid off early, so check the details carefully and ask questions. Some reversion schemes offer a partial refund if you die within the first few years of signing up to them.

What happens to my partner if I die?

As long as the plan is in both of your names, the arrangements will continue with your surviving partner.

What happens if my partner or I need long-term care?

If one of you needs care in your home, this is not likely to affect the terms of your plan. Similarly, if one of you leaves to go into a care home, the other can continue to live in your property and your plan is not normally affected. However, the plan will normally end if both of you leave to go into a care home. You or your doctor may need to give medical information to the lender or reversion company in these circumstances.

What will happen to my home in these circumstances?

If both of you go into permanent care, the house will normally be sold. Any money left over after paying off the loan and interest would belong to you. If you have a reversion scheme, the reversion company will then own all or part of your property.

What happens if the value of my home falls?

Nothing. The lender or reversion company takes this risk, as long as you have kept to the terms and conditions of the mortgage.

Can I lose my home?

Not normally, but you should ask the lender or reversion company if there are any circumstances in which they can take your home. If you have a lifetime mortgage, the lender should say clearly in the Key Facts Illustration if there is any risk of losing your home.

If you have a lifetime mortgage where interest is rolled up, you cannot lose your home due to arrears (missed payments) as you are not making repayments. This would also apply even if the amount you owe is more than the value of the property.

Some lenders guarantee that your home will not be taken if you take out an interest-only loan. That means you can still live in your home even if you cannot continue to make the payments.

All mortgages have terms and conditions that must be followed carefully. If your loan involves you making regular payments, and you find it difficult to keep paying these, your

lender will treat you sympathetically and positively. Lenders will always want to discuss any problems with you first to work out how they can best be solved.

What about repairs and maintenance?

You will be responsible for all repairs and maintenance unless the lender or reversion company has a scheme with a repair and maintenance contract. Some lenders and reversion companies have lists of approved local suppliers who can carry out repairs and maintenance to your property.

What happens if I don't want the equity release plan any more?

With a lifetime mortgage, you can usually repay the amount you owe at any time but the lender may make an early-repayment charge. But if you sell all or part of your home to a reversion company, you cannot change your mind.

Will I be able to raise more cash from my home in the future?

Possibly, depending on the type of loan you have and whether there is still enough equity in your home. You would need to speak to the lender or reversion company.

Is there anyone else I can talk to?

Apart from lenders and financial advisers, you can also get advice from your local home improvement agency, a Citizens' Advice Bureau or a local housing advice centre. You can also speak to a solicitor and should think about discussing your plans with your family.

What happens if I receive poor advice or choose a product that does not suit me? What rights do I have to compensation?

This depends on the type of scheme, who provided it and whether it is regulated or not. If it is regulated and you cannot sort out any complaint you have with your lender or adviser, you will have the right to go to the Financial Ombudsman Service. But you do not have that right if you take out a home reversion scheme, as these are not currently regulated loans.

However, SHIP has a voluntary complaints procedure for reversion providers. There are proposals to regulate reversion schemes, but this is not likely to happen before 2006.

What next?

You can get more information from the organisations listed at the end of this leaflet. You should seriously consider discussing your plans with a qualified financial adviser and members of your family. Make sure that you have got all the information you need before making any decisions.

Other useful addresses

<p>Financial Services Authority</p> <p>25 The North Colonnade Canary Wharf London E14 5HS Website: http://www.fsa.gov.uk Phone: 020 7066 1000</p> <p>Age Concern</p> <p>Age Concern England Astral House 1268 London Road London SW16 4ER</p> <p>Phone: 020 8679 8000 E-mail: ace@ace.org.uk</p> <p>Age Concern Scotland 113 Rose Street Edinburgh EH2 3DT</p> <p>Phone: 0131 220 3345 E-mail: enquiries@accscot.org.uk</p> <p>Age Concern Cymru (Wales) Fourth Floor, 1 Cathedral Road Cardiff CF11 9SD</p> <p>Phone: 02920 371566 E-mail: enquiries@accymru.org.uk</p> <p>Age Concern Northern Ireland 3 Lower Crescent Belfast BT7 1NR</p> <p>Phone: 02890 245729 E-mail: ageconcern.ni@btinternet.com</p>	<p>Help the Aged head office</p> <p>Help the Aged England 207-221 Pentonville Road London N1 9UZ</p> <p>Phone: 020 7278 1114 Fax: 020 7278 1116 E-mail: info@helptheaged.org.uk</p> <p>Help the Aged Scotland 11 Granton Square Edinburgh EH5 1HX</p> <p>Phone: 0131 551 6331 Fax: 0131 551 5415</p> <p>Help the Aged Wales Room 123, CSV House Williams Way Cardiff CF10 5DY</p> <p>Phone: 02920 415711 Fax: 02920 415712</p> <p>Help the Aged Northern Ireland Ascot House 24-30 Shaftesbury Square Belfast BT2 7DB</p> <p>Phone: 02890 230666 Fax: 02890 248183</p>
<p>The Home Improvement Trust 7 Mansfield Road Nottingham NG1 3FB</p> <p>Phone: 0115 934 9511 Fax: 0115 934 0501 E-mail: info@hitrust.org</p>	<p>Safe Home Income Plan PO Box 516 Preston Central PR2 2QX</p> <p>Phone: 0870 241020 E-mail: info@ship-ltd.org</p>