Equity release

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Use this fact sheet to:

- learn what equity release means and how it can help you;
- understand the main advantages and disadvantages of different types of equity release schemes;
- find out about alternative options to equity release; and
- find out where to go for further advice before agreeing to an equity release scheme.

What is equity release?

If you live in mortgaged property, the equity in it 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 to let you access money from this equity without having to leave your home. You usually need to be at least 55 years old. You may be able to take the money that you release as a lump sum or regular smaller payments, or both.

Get 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. Later in this fact sheet, we explain where you can get professional advice.

How equity release can help

Equity release can be helpful if you want to repay an existing mortgage, increase your income or pay for care needs.

You may also choose to use equity release to help you pay debts that you owe. Equity release can help you in different ways, but always **contact us for advice** before choosing this option. We can help you to understand the advantages and disadvantages before you decide what to do.

- It can ease pressure on you if your creditors are chasing you for payment.
- It may help to stop creditors taking legal action against you.
- If you can't pay off all your debts, you could reduce them so that you can manage payments more easily, or ask your lenders to write off the rest.
- It can help you to get out of debt if you have a low income or no money available.

How can I use the money I get from equity release?

You may have a lot of different creditors asking you for money. Some may put more pressure on you than others. However, this doesn't always mean that you should pay those creditors first. Before you decide what to do with your money, it is important to understand the powers that different creditors have.

Priority creditors are the most powerful. If you do not pay what you owe, you may lose an essential service or an essential item. For example, if you do not pay your mortgage, you could lose your home. If you do not pay your gas or electricity, your supply could be cut off. If you do not pay your council tax, the council could apply to send you to prison as a last resort.

Non-priority creditors cannot immediately take away an essential service or an essential item if you do not pay them. These creditors are more limited in what they can do to collect what you owe. Credit cards, unsecured loans, store cards and unsecured overdrafts are examples of non-priority debts.

- When you decide how to use the money you have raised by releasing equity, you may wish to put some money aside to pay for your essential living costs. Also, you could choose to clear priority debts first.
- We usually recommend treating non-priority creditors fairly. For example, if you have a lump sum of money and want to use it to reduce your non-priority debts, we suggest dividing your money between your creditors on a pro-rata basis. This means that your biggest debt gets the largest share of the available money. **Contact us for advice.**
- You could make full and final settlement offers to all of your non-priority creditors. This means offering each creditor a fair share of your available money and asking them to write off the rest. There are important things to consider when making full and final settlement offers. **Contact us for advice.**
- You could consider an individual voluntary arrangement (IVA). This is a legally binding agreement with your creditors to pay part of your debts back. IVAs are often based on making regular payments over an agreed period. However, you may also set up an IVA based on selling or using your assets to raise a lump sum. Creditors vote on whether to agree to the arrangement. There are rules about how many creditors have to agree in order for the arrangement to be set up. There are also fees to pay to the person who sets up the arrangement for you. It is important to understand the advantages and disadvantages of an IVA before choosing this option. **Contact us for advice.**
- There may be some limited circumstances where you choose to clear certain non-priority debts before others. For example, some non-priority creditors may threaten to take legal action against you to recover what they say you owe. Just because creditors threaten this, doesn't mean it will happen. Some creditors threaten to take further action but don't carry it out. However, some aggressive creditors could take court action against you quickly. If legal action will have serious consequences for you, you could reduce or clear these debts first. **Contact us for advice.**
- Some creditors may be charging interest at a much higher rate than others. This may mean that those debts are increasing much more quickly. In this situation, you could choose to use your money to reduce or clear these debts first. This may help you to manage your remaining debts. **Contact us for advice.**

See our fact sheet:

Full and final settlement offers.

See our fact sheet:

Individual voluntary arrangements (IVAs).

Warning

treating creditors unfairly

If you clear some debts before others, or if you don't treat them all fairly (for example, by making pro-rata payments to them), this could cause problems if you later choose some other options to deal with any remaining or new debts. **Contact us for advice.**

How does equity release affect benefits?

If you use the money you raise from equity release to clear debts, it can affect your benefit entitlement.

- If you already claim benefits, you must tell the Department for Work and Pensions (DWP) or council about the money you receive from equity release. This can affect how much you are entitled to. Be careful, because you may still be treated as having the money, even after using it to clear debts. **Contact us for advice.**
- If you claim benefits after using your money to clear debts, you may still be treated as having the money for the purpose of working out how much benefit you are entitled to. This is a complicated area. **Contact us for advice.**

How does equity release affect tax?

You will not usually need to pay tax on the equity released from your main home. However, in some situations, you may need to check how releasing equity affects your tax position. We can suggest ways of finding the right type of professional tax advice. **Contact us for advice.**

Different equity release schemes

There are two main types of equity release schemes.

- Lifetime mortgages
- Home reversion

Lifetime mortgages and home reversion schemes work differently. Which is suitable for you will depend on your circumstances and what you want to achieve.

Lifetime mortgages

A lifetime mortgage can give you funds in a single lump sum or in smaller amounts over time. You will agree the maximum amount of money that you can borrow with the scheme provider. If you take out a lifetime mortgage, you will still be the owner of your home. The lifetime mortgage will carry interest. You can choose to either make repayments or let the interest build up. The loan and any interest will be paid back either when you die or move into long-term care.

Home reversion

Under this scheme, you can sell all or part of your home to a home reversion company. They then give you a lump sum of money or regular monthly payments. You can continue living in the property until you die. You do not have to pay any rent.

Rules about equity release

Lifetime mortgages and home reversion schemes are regulated by the Financial Conduct Authority (FCA). This means that firms which offer either type of scheme must follow the FCA's rules about equity release. The FCA's rules say that equity release firms must take reasonable steps to make sure that any equity release products they recommend to you are suitable for you. Also, when the firm considers whether equity release is suitable for you, they should take into account how it will affect any benefits you receive and your tax position.

Equity Release Council

The Equity Release Council (ERC) is a not-for-profit organisation that represents different types of firms involved in equity release. This includes lenders, qualified financial advisers, solicitors and other industry professionals. They aim to provide you with information and protection if you are considering entering into an equity release scheme. They provide guidance to their members about how entering into an equity release scheme should work.
Firms which advise on, and provide, equity release schemes and who are ERC members should all follow the FCA's rules about equity release. They should also follow further rules and guidelines that the ERC has set out. By using a firm that is an ERC member, you will have further safeguards to help make sure that equity release is a realistic option for you.

Equity Release Council product standards

The ERC has certain standards that they recommend equity release products should meet. 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 you main home and you keep to the terms of the contract.
- You are allowed to move to another property as long as your 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 that 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 you enter into an equity release plan, you should be given a clear and accurate explanation of what your equity release plan involves. The advantages and limitations of your plan should be clearly explained, together with the terms and conditions. You should be given information about:

- all the costs involved in setting up the plan;
- what will happen if you want to move to another property;

- how the plan affects your tax; and
- how changing house prices may affect you.

When you get independent legal advice, check that you understand:

- what the scheme involves;
- the costs to you; and
- the disadvantages involved, as well as the advantages.

The ERC's rules and guidance give more information about how ERC members should operate. See the ERC's website **www.equityreleasecouncil.com**.

Fees charged

Different fees are likely to be charged when you enter into an equity release agreement.

- **A fee to have your property surveyed.** You usually have to pay this when you apply. The amount of this fee depends on the estimated value of your home.
- **Application fee.** You need to pay this when your equity release transaction goes through. You may be able to pay for it by borrowing a bit extra under your equity release plan.
- **Legal fee.** You need to pay this to your solicitor for the work they do for you in dealing with the legal side of the scheme.
- **Advice fee.** Your financial adviser may charge you a fee for the advice they give to you. Some advisers may not charge you for the advice they give. Instead, they may get some commission from the lender that you take out an equity release plan with.

Check what fees you will be charged before agreeing to anything related to an equity release scheme.

Advantages of equity release

- It can give you a cash lump sum or regular monthly payments. This can help with regular bills, home improvements, care costs and so on.
- You can usually stay in your property for as long as you need to.
- You may be able to move, as long as the new property is acceptable to the equity release firm.
- You can set aside part of your property value as an inheritance for your family members.
- You do 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 let it build up.
- The loan is only paid back when you die or when your property is sold.
- For some lifetime mortgages, interest rates are either fixed or can't rise above a set level.
- For some equity release schemes, there is a guarantee that the total amount you owe cannot be greater than the value of your property.
- You will not have to pay tax on the equity released from your main home.

Disadvantages of equity release

- Your equity immediately becomes less.
- You may only be able to leave a smaller inheritance to other people when you die.
- A lifetime mortgage means that you are 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. Also, you will no longer be the sole owner.
- If you die or sell your home shortly after taking out an equity release scheme, you could lose money. There may also be early repayment charges if you decide to repay what you owe within a short time after taking out the deal.
- 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 could end up owing 100% of your property's value.
- The money you get from equity release could affect the amount of benefits you are entitled to.
- You may need the provider's permission for someone else to move in, such as a relative or carer.
- You usually need to get your provider's permission to move to another property.
- You usually have to pay costs for arranging the transaction, for your property to be valued and for legal fees.
- You will still be responsible for paying all the usual bills, such as council tax, gas and electricity. You may also need to pay for buildings insurance.
- You will usually be responsible for repairs and maintenance. So you may need to regularly set aside some money for this.

Further advice before agreeing to equity release

Independent financial advice

It is very important that you get independent financial advice from an independent financial adviser (IFA) about the advantages and disadvantages of an equity release scheme.

Also, search on the **ERC's website** to check that the financial adviser is a member of the Equity Release Council. See **Useful contacts**.

You may also wish to contact **The Society of Later Life Advisers**. They are a not-for-profit organisation. Their members are financial advisers who are trained to give you advice about issues relevant to you in later life. See **Useful contacts**.

Warning:

equity release calculators

There are many websites have equity release calculators, but ask you to provide your personal details before they give you further information. Your information may then get passed on to other organisations who may then contact you to try and sell you unsuitable equity release products.

StepChange Debt Charity provide free advice on equity release and can help you consider all the different products that are available to you. Their advisers are paid regular salaries, rather than commission based on the number of plans they help sell. See **Useful contacts**.

If you have a complaint about a financial adviser or an equity release provider, ask for a copy of their complaints procedure. If you have followed their complaints procedure and are unhappy with their response, or if your complaint has not been resolved after **eight weeks**, contact the **Financial Ombudsman Service**. See **Useful contacts**.

Independent legal advice

Search for legal advice by using the **Law Society's website**. See **Useful contacts**.

Check that your adviser is a member of the **Equity Release Council**. See **Useful contacts**.

If you have a complaint about a solicitor, ask for a copy of their complaints procedure. If you have followed their complaints procedure and are unhappy with their response, contact the **Legal Ombudsman**. See **Useful contacts**.

Extra advice:

fees

Before agreeing to use any IFA or solicitor, check what their fees will be and when these need to be paid.

Warning:

think carefully

Before entering into any equity release transaction, check all the terms and conditions carefully. Make sure you understand both the advantages and the disadvantages. Check how an equity release scheme would affect your state benefits and tax position.

Alternative options

You may wish to consider alternative ways of raising funds, rather than choosing an equity release scheme.

Unsecured borrowing

If you only want to borrow a small amount and you can meet the repayments out of your usual income, an unsecured loan may be cheaper than an equity release scheme.

Shop around to see what types of products are available.

Search for an independent financial adviser by using the **FCA register**. See **Useful contacts**. Some advisers will offer a free first interview. Some may not charge you a fee, but instead charge the lender a fee if you take out a particular loan with that lender.

Extend your mortgage

If you haven't yet paid off your current mortgage, your lender may agree to extend your mortgage and release you some more money. Whether your lender will do this depends on their policy, your age and circumstances.

Always seek independent financial advice. Search the **FCA register** to find a suitable adviser. See **Useful contacts**.

Move to a cheaper property

You may wish to consider selling your house and moving to a cheaper property. This would enable you to release money from your home and still be the owner of your new property. However, you would have to pay for legal fees for a solicitor, estate agent's fees, removal costs and possibly stamp duty.

Benefits and grants

You may be on a low income and need money for home improvements or to adapt your home to make it suitable for a disability. You may be able to get a grant from your local authority. **Contact us for advice.**

Useful contacts

Law Society
The independent professional body for solicitors. You can visit their website and search for a solicitor near to you.
www.lawsociety.org.uk

Equity Release Council
Not-for-profit industry body for different types of firms involved in equity release.
Phone: 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 issues.
Phone: 0333 2020 454
www.societyoflaterlifeadvisers.co.uk

StepChange Debt Charity
Charity providing free and impartial advice on dealing with debt and on different equity release schemes.
Phone: 0808 168 6719
www.stepchange.org

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.
register.fca.org.uk

Financial Ombudsman Service
Helps to resolve individual complaints between financial businesses and their customers.
Phone: 0800 023 4567
www.financial-ombudsman.org.uk

Legal Ombudsman
Helps to resolves complaints about the service your have received from your solicitor.
Phone: 0300 555 0333
www.legalombudsman.org.uk