June 2006

| Key Points: |
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| • Replaces previous version dated June 2005 |

# Raising income or capital from your home

This factsheet is aimed at people aged 60 and over.

**Those living in Scotland, Wales or Northern Ireland may wish to contact:**

**Age Concern Scotland**, Causewayside House, 160 Causewayside, Edinburgh EH9 1PR, tel: 0845 125 9732 (lo-call rate), website: www.ageconcernscotland.org.uk;

**Age Concern Cymru**, Ty John Pathy, Units 13/14 Neptune Court, Vanguard Way, Cardiff CF24 5PJ tel: 029 2043 1555 (national call rate), website www.accymru.org.uk;

**Age Concern Northern Ireland**, 3 Lower Crescent, Belfast BT7 1NR, tel: 028 9032 5055 (national call rate) Monday to Friday 9.30am - 1pm, website: www.ageconcernni.org.

**IF YOU ARE CONSIDERING TAKING OUT ANY FORM OF EQUITY RELEASE PRODUCT, AGE CONCERN STRONGLY RECOMMENDS INDEPENDENT LEGAL AND FINANCIAL ADVICE. *(AGE CONCERN ENGLAND IS UNABLE TO GIVE FINANCIAL OR LEGAL ADVICE*).**

## Contents

## 1. Things to consider

Equity release is a term which refers to various ways in which older homeowners can use their homes to generate income or lump sums, either with a mortgage repayable on death, or by selling the property (or part of the property) but continuing to live in it during their lifetime. Age Concern recommends that you **always** get independent legal and financial advice before taking out an equity release plan. *(Age Concern England does not give legal or financial advice).* You may also want to consider the following points before taking out a particular scheme.

### 1.1 Other options

Raising income or a lump sum from your home is only one of the options which may be available for older home owners. You may want to investigate other possible options:

- you may have other investments or assets which could boost your income or give you the lump sum you need. A financial adviser should be able to look at all your options;
- if you are struggling on a low income you may want to find out if you are entitled to state benefits that you are not currently claiming such as Pension Credit, Income Support, Council Tax Benefit, Attendance Allowance. For more information see Factsheet 18, *A brief guide to money benefits* (see Section 7 for details);
- if you are struggling to pay off your debts you may want to get advice on managing debt from your local Citizens Advice Bureau, local Age Concern or National Debtline (see Section 6 for contact details);
- you might want to consider moving to a less expensive, smaller property or sheltered accommodation; Age Concern has a range of factsheets on housing options (see Section 7 for details);
- if you need help with repairs or adaptations to your home you might want to find out first if you can get it from your council (local authority). For more information see Factsheet 13, *Older home owners - financial help with repairs and adaptations* (see Section 7 for details);
- if you want to raise capital from your home specifically to pay for repairs, improvements or adaptations, the Home Improvement Trust (HIT) might be able to help.

The Trust has set up and operates the ‘Houseproud’ scheme to help older homeowners release some of the equity tied up in their home, in order to fund repairs, improvements or adaptations. HIT is a not-for-profit company which works closely with local authorities and local home improvement agencies. A local home improvement agency can also refer you to the Trust (Houseproud) if appropriate. These agencies, sometimes called Care and Repair or Staying Put, can give specialist advice to older homeowners on getting repairs, improvements or adaptations carried out. To find out whether there is one in your area contact your local Age Concern, your local council or *foundations* - the National Co-ordinating body for Home Improvement Agencies HIA. You can also locate your nearest HIA on the Elderly Accommodation Counsel website: www.housingcare.org. For more details see Factsheet 13, *Older homeowners - financial help with repairs and adaptations* (see Section 7 for details) or contact the agency directly (see Section 6 for contact details).

## 1.2 Conditions

There are usually certain conditions which people taking out equity release schemes must meet. These will differ between different companies offering the schemes but may include:

- a minimum age, usually 60, although some schemes are open to over 55 while others are only available to people over 80;
- a maximum amount they will loan, for example 75% of the property value;
- that you must own your home and it must be worth at least £40,000;
- that you have little or no mortgage left;
- with some providers you will have to borrow a minimum amount of money.

Some companies may only accept applications from people living in freehold houses, rather than in flats or maisonettes. Some companies will only accept applications from people whose properties have been built using concrete materials such as cement or bricks, therefore your application may be rejected if your property is wood-built, prefabricated or made from other non-traditional building materials; confirm this with each company you contact.

## 1.3 Costs

Most schemes involve paying valuation and legal fees. These fees may be reimbursed by the company if you go ahead with the plan, but the position varies between companies. Ask about all fees before making any commitment. They can vary considerably between companies.

The costs may include:

- completion, arrangement or application fees which cover administration costs. Some providers might refund this on completion;
- valuation fees which will depend on how much your home is worth, with higher charges for more expensive properties. Some providers may refund this on completion;
- solicitors' fees which cover the legal work carried out on your property. Your solicitor should give you a breakdown of the fees;
- early repayment charges if you want to pay off your loan early.

## 1.4 Repairs, insurance and other ongoing costs

You will remain responsible for repairing and insuring the building. The scheme provider will expect you to maintain your home to a reasonable standard.

If you don't, the scheme provider can arrange to do necessary repairs and you will be charged for them, or the cost could be added to the amount that you owe. Remember that maintenance costs could be high. You will still have to pay Council Tax and other bills.

## 1.5 Commission or fee

A financial adviser is usually paid either by commission, one-off fee or combination of both. Check how they are expecting to be paid. From 31 October 2004 independent financial advisers must give you the option to pay by fee if you want to.

### 1.6 Moving house

Check whether any scheme you are considering allows you to move in the future. You may later want to move somewhere smaller or more suitable for your needs. Some schemes will allow the plan to be transferred to another property but this may not be the case if you are moving to sheltered housing.

If the value of the new property is lower, you will usually have to repay part of a lifetime mortgage or part of a home reversion from the proceeds of selling of your home.

If you can't transfer your scheme, you would have to pay off the whole amount from the proceeds of selling your home. You might then not have enough funds to buy a new home.

Also, bear in mind that if you release equity from your property but give the funds away, for example to a family member, it might affect your future eligibility for assistance with care home fees. If you are in this situation take further advice.

### 1.7 Other changes in circumstances

Consider whether any other change in your circumstances may affect the plan, for example someone else coming to live with you after the plan is taken out. If a younger family member or friend moves in to provide companionship or care, the scheme would still come to an end on your death or that of your partner and the house would probably have to be sold.

If you take out the plan as a single person and get married later (or decide to live with a partner in your property) the plan may come to an end on your death. If your partner was below the age of 60 at the time they moved into your home, you probably would not be able to transfer the scheme into your joint names. In this case, your partner may no longer be able to remain in the house after your death.

### 1.8 Life expectancy

The older you are, the larger the amount of money you are likely to receive from a scheme. This is because your life expectancy is lower. Also men receive more than women of the same age because their life expectancy is lower.

If your life expectancy is low because of your age or state of health get advice about what will happen if you were to die shortly after taking up the plan. Some schemes may be able to offer capital protection in the event of early death. If your life expectancy is low and you are considering taking out a scheme which gives you a monthly income, check if you can benefit from 'impaired life' enhancements to an annuity.

### 1.9 State benefits and charges for care services

If you are receiving a means-tested benefit such as Pension Credit, Income Support or Council Tax Benefit, the income from any of these schemes may affect your entitlement. You could therefore lose some or all of your benefit. Losing all of your benefit would probably mean having to pay more for various things such as dental treatment and glasses and you could lose rights to grants or loans from the Social Fund. Make sure that the extra income from the scheme will be enough to make up for any loss of benefits and related entitlements.

For more information see Information Sheet (IS7), *Equity Release and income-related benefits (October 2004)* (see Section 7).

Income or capital from equity release scheme might also affect any charges you pay for care service; get advice.

### 1.10 Inflation

In most cases, when you take out a scheme which provides an annuity income the income will be fixed for the rest of your life. This means that the income will not increase in line with inflation. If there is inflation the real value of your income will be reduced.

### 1.11 Tax

The equity you release as a lump sum will be tax-free but any income raised through an annuity-based scheme may increase the amount of income tax you have to pay.

By reducing the value of your estate, you may be cutting inheritance tax bills.

### 1.12 Family

The scheme can cut inheritance tax but may considerably reduce the size of your estate. You may want to discuss it with close family members. A financial adviser should be able to advise you about any tax implications.

### 1.13 Enduring Power of Attorney (EPA)

An Enduring Power of Attorney (EPA) is a document appointing a person to act on another's behalf. An EPA can be either registered or unregistered and remains in force, or takes effect, when the person granting the power (known as the grantor) becomes unable to make decisions. If you have been granted an Enduring Power of Attorney you should seek independent legal or financial advice regarding your status and your right to represent the grantor in financial transactions.

Individual lenders may or may not deal with EPA holders as bona fide representatives, so you will need to ask them about this before entering into any transaction on behalf of the grantor.

## 2. Home reversion schemes

A home reversion scheme involves selling your home or a part of your home to a private company called a reversion company. In return you receive a cash lump sum or a monthly income. You can remain in the house rent-free or for a nominal monthly rent for the rest of your life. When the property is sold, usually after your death, the reversion company receives the proceeds from the sale, depending on what share of your home you sold. For example, if you sold a 50% share of your home, the reversion company will receive 50% of the proceeds when it is sold.

If you sell only part of your home this will mean you receive a smaller cash lump sum or lower monthly income.

But when the home is sold you or your heirs will benefit from any increase in the value of the part of your home which you keep.  You may also be able to take extra cash advances later, when your home might be worth more.

When you sell your home or part of your home to a reversion company you will not receive the full value that you would get if you sold on the open market.  This is because the reversion company gives you the right to live in your home for the rest of your life.

So you will only receive a percentage of the market value.  The percentage of the value you receive will depend on your age and sex (see Section 1.7).

Certain schemes may buy your home at a higher purchase price and in return you would pay an ongoing rent while you live in your home.  You would need to be sure that you would be able to continue to afford this rent payment.

Some reversion companies offering lump sums aim to find a buyer for your home.  Others may have immediate access to funds with which the purchase can be made.  If a buyer has to be found, this can delay the process.  Ask each company how quickly it can purchase your home.  You may wish to make it clear that you will withdraw your application if a buyer has not been found within a certain period.  However, if you have already incurred non-refundable costs by this stage, withdrawal will mean that you cannot get these refunded.

The sale of home reversions schemes is not currently regulated by The Financial Services Authority (FSA).  The government has announced that these schemes will be regulated in the future by FSA but it is not expected to happen earlier than in spring 2007.  In the meantime you may wish to check if your provider is a member of Safe Home Income Plans SHIP.  All member companies of SHIP comply with its Code of Practice (see Section 4).

Age Concern recommends that you take independent financial and legal advice before proceeding.  *(Age Concern England does not give legal or financial advice)*.

You might also want to consider the following points:

**Advantages**

- with schemes offering a one-off lump sum, you have a substantial amount to spend as you wish;
- no ongoing repayments to make, the reversion company makes all of its money when the property is sold;
- you will know what share of your home (if not its value) you will be leaving to your family;
- you continue to share in any rise in the value of your property (unless you have sold its entire value);
- you can take extra cash advances, depending on the amount you originally took.

**Disadvantages**

- you do not gain from any increase in the value of the property, unless you have sold only a proportion of it;
- it will reduce the value of your estate by a significant sum and so reduce the amount left for your heirs;
- if you die soon after taking out a plan, you could effectively have sold off your house (or a share of it) cheaply. Some schemes give families a rebate if you die within the first few years of signing up;
- some schemes can take a long time to arrange, and some companies are selective about the properties they take.

## 3. Lifetime mortgages

### 3.1 Home income plans

With a home income plan you receive a monthly income for life while still owning and living in your home. You take out a mortgage loan against your home. The money is used to buy an annuity which pays you a regular income each month for life. The interest payments on the loan are deducted from this monthly income. The amount you borrowed is repaid when your home is eventually sold, usually after you die. If you live with a spouse or a partner you will have to take out the home income plan in joint names. The loan does not have to be repaid until both of you die and your home is sold.

Home income plans taken out before 9 March 1999 were eligible for tax relief. This tax relief is not available for new home income plans taken out after that date. This makes them usually only suitable for people in older age groups, for example over 80.

People who have an existing home income plan will continue to receive tax relief and will remain eligible for this even if they move home.

Age Concern recommends that you take independent financial and legal advice before proceeding. You might also want to consider the following points:

**Advantages**

- provided you choose a scheme with a fixed rate of mortgage interest, the income will remain unchanged for your lifetime; the only factor which can alter it is a change in tax rates;
- you retain ownership of the property, which means that you gain from future increases in its value but you lose if its value falls. If it does rise, you have the option of increasing the loan and obtaining extra income, therefore providing yourself with some protection against inflation;
- the sale of these schemes is regulated by the Financial Services Authority.

**Disadvantages**

- not suitable for those looking for a substantial lump sum of money;
- the income in most schemes is not index-linked and so will not keep up with inflation;
- it will reduce the value of your estate. If you die soon after taking the plan, your estate will suffer, unless you have protected it to some extent by having a capital protection plan;
- the plans are more suitable for older people who get better annuity rates because their life expectancy is shorter.

### 3.2 Roll-up mortgages (loans)

With a roll-up loan you take out a loan against the value of your home. The lender gives you a lump sum of money or monthly income (or both).

You do not have to make any repayments of interest or capital until you sell your home. Instead, the interest is 'rolled up' and added to the total loan. The full amount of rolled up interest and the loan are repaid when you sell your home.

How much you can borrow varies according to the company, value of the property and your age - the younger you are, the less you can borrow. This is because you are likely to live longer and the amount of debt you will accumulate will be greater.

## WARNING:

Because interest is rolled up, the amount you owe can grow very quickly. For example a roll-up loan of £20,000 can more than double in just 10 years on a rate of 7.5% a year. You should choose a scheme which ensures that neither you nor your estate will be liable for more than the value of your property. This is usually referred to as a 'no negative equity guarantee'. Even if the amount you borrow (plus the rolled-up interest) is more than your property's selling price, you or your beneficiaries will not have to repay more than the amount your home is sold for. Some schemes also offer a fixed or capped interest rates to protect against future interest rate increases and ensure that the loan will not go beyond a certain level. A good provider will also guarantee no repossession in your lifetime.

Some providers offer drawdown lifetime mortgages. In these schemes, instead of taking the amount you borrow as a lump sum in the beginning, you take a smaller cash amount with the option of drawing down more cash either when needed or on a regular monthly basis. Because you are taking out smaller amounts of money over a period of time, your debt will grow more slowly than if you take a whole sum at the start.

Age Concern recommends that you should always take independent financial and legal advice before proceeding. You might also want to consider the following points:

### Advantages

- you get a substantial sum to spend or invest as you wish, or draw a regular income, without paying interest;
- you retain full title to your property and you benefit from any increase in its value;

- the plans may be available to people as young as 55;
- the sale of these schemes is  regulated by the Financial Services Authority.

**Disadvantages**

- the loan debt accumulates rapidly, for example doubling after 10 years when interest rates are 7%.  The younger you are when you take out the loan, the greater the potential debt because of the longer expectation of life;
- it will reduce the value of your estate and so reduce the amount left for your heirs;
- interest rates can be high; this is because the rate will be fixed for the life of the loan which can last decades;
- you may not be able to get a top-up loan later.

### 3.3 'Interest only' loans

With an interest only loan you take out a loan against the value of your home.  You will receive a lump sum on which you will have to make interest payments.  You will not have to repay the capital until your death or the sale of your home.

The interest rates can be fixed or variable.  If they are variable and your income is fixed you might find it difficult to meet your repayments if interest rates rise.  This is important for couples to consider because if one partner dies and the surviving partner has a reduced income, she or he may not be able to afford the interest payments and this may force an unwanted move in order to reduce or repay the loan.

### 3.4 Shared appreciation mortgages

With a shared appreciation mortgage you take out a mortgage loan against your home.  When you sell your home you then repay the loan and an agreed percentage of any increase in the value of your home.  Such schemes can have pitfalls if you need to move home in the future as the amount you have to repay may mean that you do not have enough left to buy another similar home.  These loans are not currently available but have been offered in the past and may be offered again in the future.

## 4. Regulations and safeguards

From 31 October 2004 all lifetime mortgages (but not reversion schemes) became regulated.  This means there are rules about what providers must tell you when you take an equity release mortgage out, and if they don't follow these rules and something goes wrong, you will have a right to seek redress.

When you approach a lender or an adviser, they should tell you if they are going to give you advice or just information.

The main difference between the two is that, if you take advice and the product is unsuitable, you may have grounds for complaint.  If you don't take advice, as long as the information you were given was accurate, you can't complain if you make a mistake and choose the wrong one.  Your adviser has to be authorized by the Financial Services Authority (FSA). Authorization means you are protected if you receive bad advice or if your product provider or adviser goes out of business.  The FSA can confirm for you if your adviser has been authorized (see Section 6 for contact details).

Following regulation you will receive clearer information about lifetime mortgages in the form of 'keyfacts' documents.  You will receive one for the recommended product if you take advice, or one for each of the products if you don't.  It should make it easier for you to compare different products and understand the service you will receive and how much it will cost.  Make sure you read and understand it and ask about anything that is not clear to you.

Always choose an independent financial adviser; they have access to the whole market (see Section 5).  Also choose a solicitor who will act on your behalf only, not one recommended by the company providing the scheme.

The sales of home reversion schemes are not likely to become regulated until 2007.  In the meantime you may wish to check if your provider is a member of the Safe Home Income Plans (SHIP).

Some lifetime mortgage and home reversion providers are members of the SHIP.  SHIP members agree to abide by a voluntary code of practice.  The code of practice aims to ensure that member companies provide clearly explained written information about the benefits, objectives and limitations of their schemes.

You will be guaranteed that you will not lose your home, your legal work will always be carried out by the solicitor of your choice and you will be offered a 'no negative equity' guarantee. See section 6 for SHIP contact details.

## 5. Choosing an adviser

Financial advisers are listed in local area telephone directories such as Yellow Pages and Thomsons Directory. Also, the FSA has a guide 'FSA guide to financial advice' that lists organizations that can help you to find a financial adviser (see Section 6 for details).

In choosing a financial adviser you might find the following tips and questions helpful:

- check that your adviser is authorised (FSA can do this for you - see above);
- what experience do they have in advising on these plans?
- did they try to get to know your circumstances and needs?
- have they covered different options not just one?
- 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.

## 6. Further information

**Council of Mortgage Lenders**, 3 Savile Row, London W1S 3PB, tel: 020 7440 2255 (recorded information only), general enquiries tel: 020 7437 0075, consumer line tel: 020 7440 2255, website: www.cml.org.uk. It has a range of information leaflets; you can download them free of charge from the website or order them through the telephone line.

**Financial Services Authority (FSA)**, 25 The North Colonnade, Canary Wharf, London E14 5HS, tel: 020 7066 1000, consumer helpline: 0845 606 1234 (lo-call rate), website: www.fsa.gov.uk. FSA will confirm if your financial adviser is authorized.

Also produces booklets and factsheets including '*Raising Money from your home*' and '*FSA guide to financial advice*' (the guide includes list of organisations that can help you to find a financial adviser). It can help with general enquiries and complaints handling procedures.

***foundations***, Bleaklow House, Howard Town Mill, Glossop, Derbyshire SK13 8HT, tel: 01457 891 909, website: www.cel.co.uk/foundations.

**Home Improvement Trust (The)**, 7 Mansfield Road, Nottingham NG1 3FB, tel: 0115 934 9511 or 0800 783 7569 (free call), website: www.improvementtrust.fsbusiness.co.uk.

***Money£acts*** Publication, Moneyfacts House, 66-70 Thorpe Road, Norwich NR1 1BJ, tel: 0870 225 0100 (national call rate), website: www.moneyfacts.co.uk. Moneyfacts is the independent monthly guide to the mortgage, savings, credit card and personal loan. There is also a section covering special mortgage products.

The magazine is not on general sale and is available by subscription at £89.50 for an annual subscription. You may be able to look at a copy in your local reference library. Single copies of *Money£acts* are also available from Moneyfacts Publications for £12.75.

**National Debtline**, 0808 808 4000 (free call), website: www.nationaldebtline.co.uk.

**SHIP (Safe Home Income Plans)**, PO Box 516, Preston Central, PR2 2XQ, tel: 0870 241 6060 (national call rate), website: www.ship-Ltd.org.

## 7. Further information from Age Concern

The following factsheets/information sheet may be of use:

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| Factsheet 2 | *Buying retirement housing* |
| Factsheet 8 | *Looking for rented housing* |
| Factsheet 13 | *Older home owners - financial help with repairs and adaptations* |
| Factsheet 18 | *A brief guide to money benefits* |
| Factsheet 50 | *Housing options* |
| Info Sheet (IS7) | *Equity Release and income-related benefits (Oct 2004)* |

The following books may be relevant:

*Using your home as capital 2006-2007*, by Cecil Hinton and Michael Philps, price £6.99.

*Your Guide to Pensions 2006-2007: Planning ahead to boost retirement income* by Sue Ward, price £7.99

*Understanding Taxes & Savings 2006-2007: Making the most of your money* by Paul Lewis, price £7.99

*Your Rights: A guide to money benefits for older people* by Sally West, price £5.99

All books are available from Age Concern Books - to order, please telephone our hotline (9am-7pm Monday to Friday, 9am-5pm Saturday and Sunday): **0870 44 22 120** (national call rate), or visit our **website: www.ageconcern.org.uk/bookshop** (secure online bookshop).

If ordering by post, please send a cheque or money order, payable to *Age Concern England*, for the appropriate amount plus p&p to Age Concern Books, Units 5 & 6, Industrial Estate, Brecon, Powys LD3 8LA.

(**Postage and packing**: mainland UK and Northern Ireland: £1.99 for the first book, 75p for each additional book up to a maximum of £7.50. Free on orders over £250. For customers ordering from outside the mainland UK & NI: credit card payments only; please telephone the hotline for international postage rates or **email: sales@ageconcernbooks.co.uk**).

If you would like

- to find your nearest Age Concern
- any additional factsheets mentioned (up to a maximum of 5 will be sent free of charge)
- a full list of factsheets and/or a book catalogue
- to receive this information in large print

phone 0800 00 99 66 (free call) or write to Age Concern FREEPOST (SWB 30375), Ashburton, Devon TQ13 7ZZ. For people with hearing loss who have access to a textphone, calls can be made by Typetalk, which relays conversations between text and voice via an operator.

Age Concern's series of over 40 factsheets is available as a subscription service to those whose work involves older people.

For details please call 020 8765 7200 (national call rate) and ask for our factsheet subscription leaflet.

Age Concern provides factsheets free to older people, their families and people who work with them. If you would like to make a donation to our work, you can send a cheque or postal order (made payable to Age Concern England) to the Personal Fundraising Department, ACE Freepost CN1794, London SW16 4BR. Find out more about Age Concern England online on www.ageconcern.org.uk.

Please note that the inclusion of named agencies, companies, products, services or publications in this factsheet does not constitute a recommendation or endorsement by Age Concern. Whilst every effort is made to ensure accuracy, Age Concern cannot be held responsible for errors or omissions.

No factsheet can ever be a complete guide to the law, which also changes from time to time. Therefore please ensure that you have an up to date factsheet and that it clearly applies to your situation. Legal advice should always be taken if you are in doubt. *(Age Concern England does not give legal or financial advice).*



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