

Equity release – using your home to get a cash sum

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- regulate firms that provide financial services; and
- help you make informed decisions about your personal finances.

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How to contact us...

Phone In

consumer help-line,
lo-call 1890 77 77 77

Log In

www.itsyourmoney.ie
consumerinfo@financialregulator.ie

Drop In

Information Centre,
6-8 College Green,
Dublin 2

Crystal
Mark
14441



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Introduction

If you are a homeowner and are over 60, you may find yourself living on a tight budget, even if your home is worth a lot of money.

Up to now, the only way you could benefit from the value of your home was to sell it and move to a cheaper property. Now, a number of companies are offering 'equity release' schemes. These allow you to release some of the value of your home without having to move out or sell it on the open market.

Equity release schemes are not suitable for everyone, but they may help to relieve financial stress if you:

- don't want to sell your home and live elsewhere; and
- are not concerned about passing on the full value of your home to your family or other beneficiaries after your death.

This booklet explains the two main types of scheme available, and the advantages and disadvantages of each. It sets out the main issues that you need to consider before you make a decision.

Before committing to one of these schemes, you should **consider other ways of raising money from your home**. These options include:

- renting out one or more rooms; or
- selling your home and buying a cheaper one.

Consider discussing other options with your family. These could include transferring ownership to a family member in return for the cash you need and a 'life interest', which means you have the right to live in the property for life.



Make sure you get independent legal advice before raising money through an equity release scheme. It is also **important to get independent financial advice**. Make sure your legal and financial advisors are experienced with the full range of equity release schemes available on the market.

A regulated financial advisor must make sure they recommend the most suitable product for your needs from the range they deal with.

See our '**Getting financial advice**' booklet for more information.

How do I release equity?

Equity is the value of your home less the mortgage you owe. There are two main types of equity release scheme:

- lifetime mortgages; and
- home reversion plans.

In the following pages we explain the important differences between these two schemes. Make sure you understand them before you make any decision.

Lifetime mortgages

With lifetime mortgages, you borrow money against the value of your home. You make no repayments, and you continue to own and live in your home. You usually repay the loan from the proceeds when your home is eventually sold following your death or when you move out.

How much money can I get?

You can usually borrow between 10% and 45% of your home's value. The older you are, the higher the percentage you can borrow. There will probably be an upper and lower limit on the amount you can borrow. One of the conditions of getting a lifetime mortgage is that you have to pay off any existing mortgage on your home.

Depending on the lender, they may allow you to take your loan:

- as a lump sum;
- in instalments; or
- as a mixture of both.

If you don't need the total amount all at once, it will normally be cheaper in the long run to take the money in instalments as you need it. If you are approved for a large amount, and take it all at once, you will be charged interest on the whole loan. If you take part of it, you will only pay interest on that instalment. However, there may be a fee for each instalment you take, so you need to take this into account.

When would the lifetime mortgage be paid off?

The mortgage **must be paid off when**:

- you sell the property;
- you move out of your home permanently (for example, into long-term care); or
- you die.

With some lifetime mortgages, the lender may insist that the mortgage is paid off if you move out of your home, for any reason, for longer than six months.

If you and another person are joint borrowers and either of you dies, the mortgage must be paid off when the remaining borrower sells the home, permanently moves out or dies.

Can I cancel or end a lifetime mortgage?

Yes. You can **choose to pay off the mortgage at any time** by:

- selling your home and using the proceeds of the sale to pay off the loan; or
- using any other money you have available to pay off the loan.

However, you should check whether you have to pay an early repayment fee if you have a fixed-rate mortgage (see page 8).

What is the interest rate?

Interest rates on lifetime mortgages are usually 2% to 3% higher than standard mortgage rates because you are not making regular repayments. Rates can be fixed at a set percentage, or they can be variable and change in line with interest rates in general.

How is interest charged?

Interest is charged on the amount you borrow and is added to that amount. Each month after that you are charged interest on what you have borrowed plus the interest added from previous months. This is called 'compound interest'. **So the amount of interest charged increases over time as the amount you owe grows.** Your mortgage can mount up quickly, as you can see from this table.

| Amount borrowed | Amount owed after | | |
|-----------------|-------------------|----------|----------|
| | 5 years | 10 years | 15 years |
| €50,000 | €67,454 | €91,014 | €122,785 |
| €100,000 | €134,907 | €182,029 | €245,570 |
| €150,000 | €202,361 | €273,043 | €368,354 |

These figures assume compound interest fixed at 6%.

The longer the mortgage lasts, the more it grows. **So, there is a risk that when the time comes to sell your home, the proceeds from the sale may all be used up in paying off the mortgage.** There may be nothing left for your beneficiaries (the people who will benefit from your estate).

Of course the value of your property may rise by enough to pay off the mortgage and still leave some money, but this is not a certainty.

What happens if I owe more than my home is worth?

As time goes on, the total amount you owe (the original loan plus interest that has been added on) could amount to more than the value of your home. This is called **'negative equity'**. Make sure the lifetime mortgage you are considering gives you a **'no negative equity' guarantee**. This means that you (or your estate) will never have to repay more than the proceeds from your home when it is sold, even if that's less than the amount you owe on your mortgage.



Is the rate fixed or variable?

Some lifetime mortgages offer you a choice between a fixed rate and a variable rate of interest.

With a **fixed-rate** mortgage, interest is fixed at a set rate for a number of years or, in some cases, for the life of the mortgage. The interest is usually higher than the starting rate of a variable-rate mortgage.

With a fixed-rate mortgage, you can predict how much interest will be added and how much the mortgage will grow by from year to year. But if you decide to pay off the loan by selling your home, **you may have to pay a fee** for breaking the fixed-rate contract. Depending on the size of your mortgage, this could be a large amount of money.

With a **variable-rate** mortgage your rate can move up or down in line with interest rates generally. So, you can't predict the amount of interest charged as this can go up or down depending on future interest rates. But you can sell your home or repay part of the loan without having to pay a fee (always confirm this with your lender).

What can I do with the money I borrow?

You are free to do what you want with the money.

Bear in mind the interest you are charged is based on the amount you borrow. If you take more than you need and leave it sitting in a low-interest account, your debt will be growing larger than it needs to and eating into the value of your home.

Does the mortgage lender own any part of my home?

No. You continue to be the legal owner of your property. However, your lender takes a 'first charge' on it. This means they will have the right to take enough from any proceeds from selling your home to pay off any mortgage on it.

Can my home be sold against my wishes?

The mortgage may allow your lender to insist that your home is sold, and the mortgage paid off, if:

- you move out of your home for six months or more (unless your mortgage is in joint names and the other owner is still living there);
- you don't insure your home; or
- you don't look after your home to the standard that may be set by your lender to maintain its value.

Are these mortgages regulated?

In Ireland all lenders who provide lifetime mortgages must meet the conditions of existing consumer credit law. This law sets out the information you have to be given when taking out one of these mortgages, such as interest rates and repayment terms.

Some lenders and financial advisors also have to meet the conditions of our Consumer Protection Code. This means they must:

- give you the necessary documents and full details of the total costs involved, including all interest and charges;
- act in your best interests and recommend the most suitable product for you from the range they can offer;
- tell you about the importance of getting independent legal advice;
- deal with complaints quickly, efficiently and fairly; and
- warn you that buying a lifetime mortgage may mean you have difficulty meeting the cost of things you need in the future.

Call us on **1890 200 469** to check if the lender or financial advisor you are dealing with is regulated by us.

If you have a complaint about a lifetime mortgage, and are not satisfied with the way your complaint is handled by either a financial advisor or lender, you can refer the problem to the Financial Services Ombudsman. This is a free independent service that deals with complaints against financial services firms and financial advisors.

For more information about making a complaint or getting help from the Financial Services Ombudsman, download a copy of our fact sheet **'How to make a complaint'** from **www.itsyourmoney.ie**. You can contact the Financial Services Ombudsman's Bureau at 1890 88 20 90 or visit their website at **www.financialombudsman.ie**.

One reason you may consider raising cash through equity release is to pay for **nursing home care** for yourself or your partner. If this is the case, you may want to consider the Nursing Home Support Scheme, which is due to come into effect in January 2008. Under this scheme, which will be run by the HSE, you may be eligible to receive State funding for this type of care and then pay it back when your estate is settled. So, you won't have to sell or mortgage your home to pay for care. For more information on this scheme to go to **www.hse.ie** or call the HSE info line on 1850 24 1850.

Home reversion schemes

With these schemes you agree to sell a share of your home in return for a set cash price. The price will be less than the market value of the share of your home that you sell. You are not borrowing against the value of your home but are actually **selling part of your home**.

So, for example, if the home reversion company bought a 40% share of your home, they would later on receive 40% of the proceeds from selling your home – either when you move out or after your death. The other 60% would go to you, or to your estate after your death.

Companies offering home reversion schemes will usually consider buying between 10% and 90% of your home, depending on your age and the value of your home. You can live in your home for the rest of your life and can use the cash you receive for anything you like. If you already owe money on your existing mortgage, this will have to be paid off as a condition of taking out the home reversion scheme.



How much could I get from selling a share in my home?

You get much less than the market value for the share you sell. This is because the

home reversion company may have to wait many years before they can cash-in their share. The

following table shows the lump sum a single woman could get in return for selling a **50% share in a**

home worth €500,000 under a fixed-share contract.

| Woman's age | Market value of 50% share | Estimated lump sum for a 50% share |
|-------------|---------------------------|------------------------------------|
| 65 | €250,000 | €112,430 |
| 70 | €250,000 | €129,758 |
| 75 | €250,000 | €146,580 |

As you can see, the older you are when you start the scheme, the bigger the lump sum you can get for selling the same share.

Due to different average life expectancies, a single man of the same age would receive more than a single woman. A couple would receive less, as it is expected that one of them will live longer than either would alone.

With home reversion schemes you must take the money as a lump sum, and cannot take it in instalments.

You need to think carefully about:

- what share of your home you are prepared to sell;
- how the cash sum you would receive for a share of your home compares with your home's real market value; and
- whether you are signing up to a fixed-share or a variable-share contract.

Fixed-share contract

Under a **fixed-share contract**, the home reversion company pays you a lump sum in return for a fixed share of your home.

The percentage they own and the percentage you keep is fixed from the start and cannot change, no matter how long you live or what your property is worth in the future.

Variable-share contract

With a **variable-share contract** you get a bigger lump sum when you first sell your share, but in return, the percentage of your home the home reversion company owns automatically increases each year without you receiving any further payments. So, the percentage you own will reduce as time goes on. If you first sold 25% of your home, after 15 years the home reversion company might own as much as 50%.

With a variable-share contract, the longer you live, the less of your property you will own.

When does the home reversion scheme end?

Generally, the home reversion scheme will end when:

- you permanently move out of your home (or, depending on the contract, you move out for more than a certain number of months);
- you die; or
- you sell your home;

whichever happens first.



Can I cancel or end this contract?

You cannot change or reverse this kind of contract. However, you may be able to negotiate with the home reversion company to buy back the share you sold them, and you can usually sell your home on the open market at any time by coming to an agreement with the home reversion company. This would allow you to cash-in the value of the percentage of your home you still own.

When you die, your family or other beneficiaries may be given the option to buy back the percentage that the home reversion company owns. If the value of your home has increased due to inflation, it may be difficult for them to raise enough money to do this.

Are these plans regulated?

As home reversion schemes involve selling part of a property, the firms who provide or advise on these plans are not regulated. This means consumer credit laws and our Consumer Protection Code do not apply to home reversion companies' dealings with you.

If you have a serious complaint that the company does not sort out to your satisfaction, **you cannot refer the matter to the Financial Services Ombudsman**. So you may have to take legal action to solve the problem.

Advantages and disadvantages of lifetime mortgages

Advantages

You can raise cash through a lifetime mortgage and continue to own and live in your home.

You don't have to make regular repayments.

You continue to own your home and benefit from any increase in its value.

You may be able to take the loan in instalments as you need it, reducing the interest that will be added to your mortgage.

Firms providing these products must meet the conditions of consumer credit law. Some lenders and advisors must also meet the conditions of our Consumer Protection Code. If you have a complaint, you can go to the Financial Services Ombudsman. For more information call us on **1890 200 469**.



Disadvantages

You will be charged a higher rate of interest than on a standard repayment mortgage.

As you make no repayments, interest builds up quickly. The longer you live in your home, the more your loan grows, and the amount you owe could eventually come close to or equal the sale value of your home.

A large amount may have to be paid when your home is sold, so less (or no) money would be left over for your long-term care or to pass on to anyone after your death.

If it is a variable-rate mortgage, the interest owing, and so your total loan, will increase more quickly if interest rates rise.

You can't use your home as security to get another loan except through the same lender (though you may be able to refinance your lifetime mortgage with another lender).

Advantages and disadvantages of home reversion schemes

Advantages

You can raise cash by selling part of your home and can continue to live in it. Although the home reversion company owns a part of your home, you don't pay rent.

If property prices fall, you will benefit from having received a cash value based on prices before the fall.

It is not a loan so there are no repayments and you are not charged interest.

If it is a fixed-share contract, you continue to own a fixed percentage of your property.



Disadvantages

The money you receive will be much less than the market value of the share in your property. The difference between the market value and the lump sum you receive for the share you sell is the true cost of this product. If you don't live long, it may prove very expensive.

You won't benefit from the full increase in the value of your home if property prices rise. The home reversion company benefits from the rise in the value of its share. You will only benefit from an increase in the value of the share you still own.

You can't use your home as security to get a loan (though you may be able to sell more of it to the same home reversion company to raise more cash).

As these schemes involve selling part of a property, firms and advisors do not have to meet the conditions of existing consumer credit laws. The Financial Services Ombudsman cannot deal with a complaint, so you may have to take legal action if you have a serious complaint.

Fees and costs for both types of scheme

The following are some of the general costs that you need to budget for.

Depending on the type of scheme you choose, you may have to pay:

- a valuation fee;
- legal fees and costs for transferring ownership or arranging your mortgage;
- fees for the independent legal and financial advice you need to protect your interests.

Some companies have a fixed 'set-up' fee to cover legal and valuation fees. You may need to budget for between €1,500 and €3,000 to cover these costs. If you want to pay for these fees through your lifetime mortgage, compound interest will be charged on the amount of the fees over the life of the mortgage, meaning they will cost more in the long run.

With both types of scheme, the amount of money you get depends on the value of your home. So it is important to make sure that the valuation is **independent**. You may want to consider getting a second professional valuation so that you can make an informed decision.

Insurance and home maintenance

For all equity release schemes you must:

- keep your home in a good state of repair; and
- insure your home, noting the lender's or home reversion company's interest on the policy.

Maintenance costs can be high and usually increase over time. The lender or home reversion company can inspect your home from time to time, and can carry out any necessary repairs if you don't maintain your home to their standard. They generally add any repair costs to the amount you owe, so compound interest would be charged on those extra costs.

You should also bear in mind that some schemes may restrict you from making certain renovations (such as installing ramps, lifts or railings) as they may reduce the market value of the property.

Be aware

Any financial decision you make at age 60 can look very different at 75 when your needs and circumstances may have changed. These products may seem straightforward, but you need to consider how long you might live and what your future health and care needs will be.

Main issues to consider

- Any lump sum or income you raise through an equity release scheme could affect your entitlement to state benefits such as your means-tested State Pension.
- The money may not last for your lifetime, and its value will gradually fall due to inflation. Consider your future financial needs and also your long-term health and care needs.
- Raising cash through equity release will mean there is a lot less, or perhaps nothing at all, left for your beneficiaries. If you are concerned about this, discuss it with your family or a solicitor.
- Consider how much money you really need. Money you get through an equity release scheme will lose value if it is just sitting in a low-interest bank account. If you left it as equity in your home, it could increase in value.
- Consider carefully the benefits of making a will before entering one of these schemes. This will help avoid delays in sorting out your affairs after your death, and may save unnecessary extra costs.



Using money from equity release for buying investments is high risk.

You could lose some or all of your money. The return you could make on an investment is likely to be less than the costs of releasing equity – either the interest due on your lifetime mortgage, or the value you have given up on the share of your home you sold to a home reversion company.

Questions to ask about equity release

General

- How will any money I get affect my pension or entitlement to other state benefits?
- Can the scheme be transferred to another property if I want to sell up and move later on?
- Could the lender or home reversion company sell my home against my wishes?
- How will my decision affect my beneficiaries?
- If I live longer than expected, will I have enough money left to pay for my long-term needs?
- Can I cancel this scheme? What penalty, if any, could apply?
- What are my rights if I have a complaint against the company?
- What are the rights of others who live with me in my home?
 - If someone who relies on me financially lives with me, could they continue to live in my home if I move out or die?
 - What happens if my partner and I have to go into long-term care?
 - If I need a full-time carer, will they be allowed to live in my home with me?

Home reversion schemes

- Is the contract with the home reversion company fixed or variable?
- If I make improvements to my home, who would benefit from any increase in its value?

Lifetime mortgages

- If I choose a fixed-rate mortgage, what penalty, if any, would apply if I wanted to pay it off early?
- Is there a 'no negative equity' guarantee?
(See page 7.)

Dos and don'ts

✓ Do

- Do take into account the needs of your family, but also consider your own financial and other needs.
- Do get independent **legal and financial advice**.
- Do explore other options for raising money.
- Do consider how your decision may affect the beneficiaries of your will, and discuss the issue with them if possible.
- Do shop around and compare schemes and providers before you make a decision.
- Do negotiate the interest rate (for a lifetime mortgage) or the cash amount you are offered for the share of your home (for a home reversion scheme).
- Do consider fees and charges.
- Do think carefully about whether you want a fixed-share or variable-share contract when entering into a home reversion scheme.
- Do consider how getting money now may reduce your ability to pay for medical and living costs in the future.

✗ Don't

- Don't sign anything you don't understand, or before getting independent advice.
- Don't rush a decision. You need time to consider the wide range of issues involved.
- Don't be tempted to use an equity release scheme to raise money for investments that may be risky.

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lo-call 1890 77 77 77

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Information Centre,
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This is a general guide to equity release. Nothing in this booklet is intended to be, or should be considered to be:

- 1 an invitation, offer or incentive to you or any other person to enter into a financial arrangement;
or
- 2 advice on, or a recommendation of any particular product or product provider.

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