May 2005

Financial Services Authority

# FSA Factsheet
# Raising money from your home

## This factsheet is for you if:

- you are in your mid-50s or older;
- you own your home; and
- you want extra regular income, a cash lump sum or both.

## It explains:

- how you can raise money from the value of your home through an equity release scheme;
- how equity release schemes work and some of the risks involved;
- how you might be able to raise money in other ways; and
- where to get more help and information.

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If you are in your mid-50s or older you might have paid off your mortgage, or be close to doing so. The value of your home may have risen a lot since you bought it, but you might still be short of money to spend or invest in other ways. Equity release is a way of raising money from the value of your home.

This factsheet explains the two main types of equity release scheme. These are known as **lifetime mortgages** and **home reversion** schemes. It explains some of the advantages and disadvantages and some things to think about before committing yourself.

**Equity release schemes can be helpful in certain circumstances but are not suitable for everyone.** For example, they can be expensive and inflexible if your circumstances change in the future (if you want to move home, for example) and may affect your current or future entitlement to State benefits. **It is important that you check all the other ways you could meet your financial needs before making any commitment.** See page 8.



## What is 'equity release'?

Equity release is the term used to describe the different ways in which you can benefit from the value of your home without having to move out of it. You can either take out a loan secured on your home or sell part or all of your home to give you a regular income or a lump sum, or both.

**It is important that you look at whether there are other ways you could meet your financial needs before you make a commitment.** See page 8**. And there are a number of issues you need to consider carefully before choosing an equity release scheme.** See pages 9-13.

## How can equity release help you?

For various reasons, you may need or want extra money. The equity (money) you have in your property is its value less any mortgage or other charges against it. So, on paper at least, you might seem well off.

But, unless you can release it, this is not money you can spend or invest in other ways. Equity release schemes are designed to help you do so. But of course there is a cost involved and you would be wise to take professional advice before committing yourself.

## How does equity release work?

There are two main types of scheme. These are called '**lifetime mortgages**' and '**home reversions**'.

With a **lifetime mortgage** you take out a loan secured on your home. This mortgage may be:

- a home income plan;
- an interest-only mortgage;
- a roll-up mortgage (rolled up means interest is added to the loan, for example each year); or
- a fixed repayment mortgage.

The mortgage is repaid from the proceeds of the sale of your home when you die, or if you move out of it (perhaps into a care home) when the scheme will usually end and your home will be sold. See pages 4-6 for a description of these schemes.

With **home reversions** you sell all or part of your home to a third party, normally a reversion company or an individual. In return you receive a regular income and/or a cash lump sum and you continue to live in your home for as long as you wish. See page 7.

## Who would my home belong to?

If you take out a lifetime mortgage, you continue to own your home (but subject to a mortgage). If you choose a home reversion, all or part of your home belongs to somebody else. With some schemes, the new owner (or part owner) is the reversion company itself. With others, it acts as a middleman and finds an investor, who could be a company or a private individual, to buy part or all of your home.

## How do I get my money through an equity release scheme?

Equity release schemes can provide you with a cash lump sum of money or a regular income. Depending on the type of scheme you choose, you have a number of options:

1. You could take the lump sum to use as you wish.
2. The lump sum could be invested, either in an **annuity** or **some other type of investment** to generate a regular income:
   - An **annuity** is an investment that converts a lump sum into regular income for the rest of your life. Generally, the income you get will either remain the same or will rise annually by a set amount (eg by a fixed percentage, or in line with the Retail Price Index). The older you are when you take out an annuity, or the poorer your health, the higher the income you will get from it (because there are fewer years over which the income will need to be spread). For more information about annuities, see the **FSA guide to pensions 3: Annuities and income withdrawal**. See *Useful contacts* on page 19 for how to get a free copy.
   - There are various **other types of investment** you could be offered. Make sure you find out whether the income is fixed or variable and remember the general rule that the value of investments can go down as well as up.
3. You could get income, or simply money when you need it, on a **drawdown** basis. This is not linked to an investment.

Some schemes combine these features. For example, you could take a lump sum at the start, and then draw down income thereafter. If you choose income, make sure you understand how much you will get and when you will get it. See page 5 for more information.

**And remember, if you want to put some of the money in a deposit account, it will probably earn interest at a lower rate than the rate you'll be charged on your loan. In other words, you would be worse off overall.**

### Warning

Think carefully about using the money you have released to invest, as this carries a high risk.

Before you decide to enter into an equity release scheme, get advice from a solicitor and an FSA-authorised adviser. Satisfy yourself that they have the experience to advise on equity release schemes. For details of advisers who can give you advice on equity release in your area, see the organisations listed in *Useful contacts* on page 18. You need to make sure you are aware of all the State benefits to which you might be entitled before you enter into any commitment. For where to get information about benefits, see *Useful contacts* on page 18.

An authorised adviser can assess whether a scheme is suitable for you and, if so, which type. This will need to take account of your tax liabilities and how equity release could affect your potential entitlement to any State benefits.

You may wish to discuss this with your family as any equity release scheme will affect the amount of money you will be able to leave to your beneficiaries when you die.

## Joint equity release schemes

You can usually take out a lifetime mortgage or home reversion in joint names. It will continue until the second of you dies or is no longer living in the home.

## How does an equity release scheme work in practice?

*The figures in the examples that follow are for illustration only. Before entering into an equity release scheme, get advice from a solicitor and an authorised adviser.*

### 1. Lifetime mortgages

The main types are **home income plans, interest-only mortgages, roll-up mortgages,** and **fixed repayment mortgages**. Some lifetime mortgages might include a **shared appreciation** element. These are all explained here.

- **Home income plans**. You take out a loan that pays you a cash lump sum and is secured against the value of your home. The lump sum is used to buy an annuity which gives you a monthly income, usually a fixed amount for life. You then use part of the income to pay the interest on your mortgage, usually at a fixed rate. What remains is money for you to use as you wish. The amount you originally borrowed is repaid when your home is eventually sold.

  Because the extra income you will get is fairly low, this type of scheme is usually only suitable if you are older (perhaps around 80). The older you are when you buy an annuity, the higher the income you get, as there are fewer years over which the income will need to be paid.

### Example

Harry is 80. He takes out a home income plan for £45,000 with a fixed interest rate of 6.5%, which buys an annuity. After mortgage interest of £243.75 and tax are deducted, each month he gets extra income of £270. Ten years later he dies and his house is sold. Harry had repaid a total of £29,250 in interest. The lender gets back £45,000 (along with any administrative charges). The remaining amount from the house sale passes to his beneficiaries (the people who benefit from his estate).

- **Interest-only mortgages**. You take out a loan that pays you a cash lump sum and is secured against the value of your home. You pay interest on the loan each month (it can be at a fixed or variable rate). The amount you originally borrowed is repaid when your home is eventually sold. You must satisfy yourself that you can afford to pay the interest from your pension or other income. Remember that if the interest rate is variable and your pension or other source of income is fixed, you may find it more difficult to meet your repayments if interest rates rise.

### Example

Fred borrows £45,000 at a fixed rate of interest of 6.5%. His interest payments will be £243.75 per month. After 15 years, Fred dies. He had paid £43,875 in interest. The lender is still owed the original £45,000, which will be repaid from the sale of the house. Any remaining money from the sale will belong to Fred's beneficiaries.

- **Roll-up mortgage.** You take out a loan secured against the value of your home. You can take the loan as regular income or a cash lump sum. However, you do not pay the interest on the loan until your home is sold. Interest is usually added to the loan monthly or yearly.

  Because you are not paying the interest on the loan until your home is sold, the amount you can borrow may be relatively small, and will depend on your age. The interest, which can be fixed or variable, is charged on the original loan plus the interest that has already been added. Because of this, as the table below shows, the amount you owe can grow quickly, especially if you take a lump sum at the start. Eventually this might mean that you owe more than the value of your home. Lenders treat this situation in different ways. These are explained on page 10.

### Example

Hilda takes out a roll-up mortgage for £45,000 with a fixed interest rate of 7% a year. When she dies 10 years later, her home is sold and the lender gets back the original loan plus the rolled-up interest which is £88,522 in total. Her beneficiaries get the balance remaining from the sale.

**Roll-up mortgage: example of how the amount you owe might grow**

| Number of years since you took out the loan | Amount you owe if you take a lump sum of £45,000 and if the mortgage interest rate is: | | |
|---|---|---|---|
| | 5% a year | 7% a year | 9% a year |
| 5 | £57,433 | £63,115 | £69,239 |
| 10 | £73,301 | £88,522 | £106,532 |
| 15 | £93,552 | £124,157 | £163,912 |
| 20 | £119,399 | £174,136 | £252,199 |
| 25 | £152,387 | £244,235 | £388,039 |

The other type of roll-up mortgage is a **drawdown mortgage**. This means that instead of taking the amount you borrow as a single lump sum, you take smaller amounts – perhaps monthly. Some types of scheme allow you to agree a total loan amount which you just draw down as you need it – for example, if you need money to pay for home improvements. You might need to draw down a certain amount at a time – say £1,000. The examples that follow show how these schemes work.

Because you are taking smaller amounts, the total amount you owe will grow more slowly than if you take a lump sum at the start. A drawdown scheme might give you a higher income than a home income plan as you are not paying back interest on the mortgage until the loan is repaid on your death. There is no investment product involved, so your capital is not at risk.

### Example 1

Annie takes out a drawdown mortgage that gives her a fixed income of £200 a month. The interest rate is fixed at 6.5% a year. Annie also agrees with the lender that the arrangement fee and valuation fee (£595 in total) will be added to the loan, so she has less to pay in advance. After a year, the total she owes is £3,190. She has received £2,400 (12 x £200) and £595 was added to the loan. The lender has charged £195 interest for the first year. (£2,400 + £595 + £195 = £3,190). Annie dies after 15 years, having continued to take £200 every month under the drawdown mortgage. She had borrowed a total of £36,000. Interest has been added to the loan each year, so the total owed to the lender is £63,339. Her home is sold and the total owed is paid to the lender and her beneficiaries get the balance from the sale.

### Example 2

Jim is 70 and his house is worth £100,000, but he doesn’t have any savings. He needs £2,000 immediately to pay for some repairs to the roof. And he would like to be certain that if he needs extra money in future, he would be able to borrow it.

Jim takes out a drawdown mortgage. The lender agrees that he can borrow up to £30,000, and take the money as and when he needs it. The interest rate is fixed at 7% and interest is added every year to the amount he owes. Jim takes £2,000 immediately, so the roof repairs can be done. The following year, he travels abroad to see his son, and takes another £2,000 from his ‘borrowing limit’ of £30,000. Two years later, he has his house redecorated, so takes another £4,000. Another two years later, he takes £3,000 for some more improvements to his house.

When Jim is 85 he becomes ill and moves into residential care, so his house is sold and the mortgage repaid. He has only borrowed £11,000 in total (£2,000 + £2,000 + £4,000 + £3,000) so interest has only been charged on what he has borrowed, rather than on the full £30,000. The interest charged by the lender totals £14,585, so the total repaid is £25,585. His house is sold and he gets the balance remaining from the sale.

- **Fixed repayment lifetime mortgages.** You take out a loan that pays you a cash lump sum and is secured against the value of your home. Instead of your being charged interest on your loan, you undertake to pay the lender, when your home is sold, a higher sum than you borrowed. This higher sum is fixed at the outset, and you pay this instead of interest being added to the loan. How much higher it is will depend on your age and life expectancy. The lender uses this higher sum to repay the mortgage when your home is sold. However, on death, the lender may charge interest on this higher sum from the date you die until the mortgage is actually repaid. It doesn't matter whether the mortgage lasts for a short time or for a long time – the amount due to the lender on repayment is the same.

### Example

Edith takes out a fixed repayment mortgage when she is 75. She borrows £30,000. The fixed sum due to the lender is £90,000. When she dies, the amount owed to the lender is £90,000 plus interest from the date she dies to the date the mortgage is actually repaid.

- **Shared appreciation mortgage (SAM).** Some lifetime mortgages include a shared appreciation element. In this case the lender gives up the right to receive some or all of the interest on the loan and instead you agree to allow the lender to take a share in any increase in the value of your home when it is sold.

### Example

Joan takes out a shared appreciation mortgage for £45,000. She is not charged interest, but instead agrees that the lender will eventually get back the original loan plus 60% of any increase in the value of the home since the scheme started. When Joan dies, her home has increased in value by £120,000. The lender gets £45,000 + 60% of £120,000 = £117,000 in total. The remainder passes to her beneficiaries.

### 2. Home reversions

The reversion company buys, or arranges for someone else to buy, part or all of your home. You get the sale proceeds as a cash lump sum. With some schemes, the lump sum is invested to give you a regular income.

Since the buyer cannot re-sell the property until your death or until, say, you move out into a care home, you will be paid less than the full market value – typically between 35% and 60%. The older you are when you start the scheme, the higher the percentage you'll get. The minimum age for these schemes is usually higher than for lifetime mortgages.

You also get a lease giving you the right to carry on living in your home for the rest of your life (or until you no longer need it). You should check the terms of the lease to make sure you understand what is required of you. Usually, you do not pay rent or if you do it is a token amount (say, £1 a month). But, with some schemes, you pay a higher rent in return for more money from the sale. You continue to be responsible for maintaining the property. If you do not do so, the reversion company can arrange to have repairs carried out and charged to you.

Once the scheme has started, the buyer of part or all of your home benefits from any rise in its value. You or your beneficiaries benefit from any rise in the value of any part you have kept.

### Valuing your home

With these schemes, the valuation of your home determines how much money you get. This is particularly important with home reversions. Therefore, make sure the valuation has been carried out independently. You may wish to consider taking advice from more than one professional residential property valuer.

#### Example

George, 68, takes out a home reversion. He sells half (50%) of his home to a reversion company. The company offers him a lump sum of £20,000, which is 40% of the market value of the half share. When George dies 15 years later, his home, which is now worth £150,000, is sold. The reversion company takes £75,000, which is their half share of the selling price, leaving the rest for George's beneficiaries.

## Some other ways you might be able to meet your needs

Equity release schemes can be helpful but they are not suitable for everyone. It is important that you consider all the options available to help ensure you get the best possible deal to suit your own circumstances and needs. Some of the options are detailed below (for more information, see *Useful contacts* on page 18).

**You could consider:**

- selling up and buying somewhere smaller and cheaper ('trading down'). The only costs involved are those connected with buying and selling, and of course you keep full ownership of your new home;
- using your savings or selling your investments, but consider getting advice before doing so.

If you need money to pay for home repairs, improvements, or adaptations, check whether you might be eligible for financial assistance from your local authority or from other organisations.

Check all the State benefits to which you are, or may be, entitled – see below.

Trace any private pensions you have lost track of. If you think you have contributed to a private pension before but have lost touch with the pension provider, then the Pension Tracing Service can usually help by tracing it for you. You can call them Monday to Friday from 9am to 5pm on 0845 6002 537.

**Main State benefits you might be entitled to**

| Benefit | Who is eligible? | Income related* | How much per week in 2005-6? |
|---|---|---|---|
| Pension Credit – credit guarantee | People aged 60 or over on a low income | Yes | Will guarantee an income of at least £109.45 for a single person or £167.05 for a couple or higher in certain circumstances. To find out more – contact the Department for Work and Pensions. See *Useful contacts* on page 18. |
| Pension Credit – Savings Credit | People aged 65 or over who have made their own modest savings for retirement | Yes | Up to £16.44 (single person) or £21.51 (couple). |
| Council tax benefit | People on a low income | Yes | Up to the full amount of your council tax bill (up to band E property). |
| Disability living allowance | If you are under 65. Payment continues when you are over 65 | No | Up to £60.60. |
| Attendance allowance | Disabled people aged 65 or over | No | Up to £60.60. |

* 'Income related' means that you qualify only if income and savings are below specified limits.

## Important things to think about

You will have many things to think about if you want to consider an equity release scheme. This 'at a glance' summary covers many of them.

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| **Who can have a lifetime mortgage or home reversion?** | Usually you have to:<br>■ be mid-50s or older (although some start at 60);<br>■ own your own home, or have only a small mortgage outstanding.<br>There may be a minimum amount you have to take. This could be, say, £15,000 or £25,000. It will depend on the type of scheme and provider. But with some providers you do not have to take this all at once. Drawdown loans can be taken in small amounts. |
| **Tax** | **Income tax**<br>The money you release from your home is currently tax-free. If you invest it, the income generated could be taxable, depending on the type of investment. Whether or not you pay tax will depend on your total income.<br>■ If your total income is higher than your tax-free personal allowance, you'll pay tax on the difference.<br>■ If your income including that from the equity release scheme is above £19,500 (in tax year 2005-6), you may lose entitlement to some or all 'age allowance' (a higher personal allowance for people aged 65 and over). Losing the allowance increases your overall tax bill.<br>So after tax, you may have less extra income from an investment-linked equity release scheme than you had expected.<br>**Inheritance tax**<br>If you take out a mortgage or sell part or all of your home, it will reduce the value of the estate you leave when you die so this may reduce any inheritance tax. But if you are thinking of using an equity release scheme as part of your planning for inheritance tax, it's best to seek advice. |
| **State benefits** | Some State benefits are income related (sometimes called 'means-tested') – see page 8. The value of your home is not always included in the means test. But a cash lump sum and/or income from an equity release scheme may reduce your State benefits. Taking this into account, an equity release scheme might not make you any better off. And, of course, State benefits can change from time to time. |

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| **Charges** | ■ **Arrangement fee.** Typically £300 to £500.<br>■ **Valuation fee.** This is linked to the value of your property but might be around £300.<br>■ **Legal costs.** Expect to pay £300 to £600.<br>■ **Buildings insurance.** The scheme provider will require this insurance, which usually costs £200 to £300 a year depending on the value of the property.<br>■ **Early repayment charge.** This may apply if you decide to pay off a lifetime mortgage. This charge differs between lenders.<br>■ **Possible rental charges.** You may be required to pay a token rent with a home reversion.<br>With a lifetime mortgage some charges – arrangement fees for example – can be added to the loan, so you pay less up front. Interest will be charged on the amount of any fees added to the loan. |
| **Some things to consider if you are investing your lump sum** | You need to consider what interest you will be charged on your lifetime mortgage (or with a home reversion, how much less than the market value you will get), how this compares with the return you will get on your investment, and whether you could lose your capital. Please note: using an equity release scheme to provide money to invest carries a high risk.<br>If you need an income, you also need to decide whether it is important that this is stable and guaranteed. If so, will the investment achieve this? |
| **What happens if I owe more than my home is worth?** | With a roll-up mortgage, the outstanding loan including the added interest can grow very fast. If the total rose to more than the value of your home, this would result in negative equity. That is, the amount you owe the lender is greater than the value of your home. This could mean that:<br>■ the lender might ask you to start paying interest during your lifetime, because by then the loan could be very large; or<br>■ after your death your beneficiaries would have to repay the extra above the value of your home from your estate.<br>To guard against this, some lifetime mortgages offer a 'no-negative-equity guarantee'. This is a promise that you or your beneficiaries will never have to repay more than the value of your home. Some schemes also have a fixed or capped interest rate, so you know in advance the maximum amount you could owe at any given time. Other schemes have a fixed repayment amount - again you know in advance the maximum you could owe. |

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| **Maintenance costs** | You will be responsible for keeping your home in good repair (even if you have sold all your home to a reversion company). You need to bear in mind that maintenance costs can be substantial. If you don't maintain your home, the scheme provider can arrange to do necessary repairs and you will have to pay for them, or the cost could be added to the amount you owe. |
| **What happens if I die soon after taking out a scheme?** | If you were to die soon after taking out a **lifetime mortgage**, most lenders would charge interest until your home was sold and the mortgage repaid in full.<br><br>With a fixed repayment mortgage, the higher fixed sum to be paid to the lender (see page 6) becomes due when you die. This could be quite an expensive deal. But in some cases the lender may reduce the amount that must be repaid to them if you die in the first few years. However, if you want to take up this option, the maximum you can borrow will be less.<br><br>With **home reversions**, the reversion company would take the percentage that was due from the sale proceeds of your home, so – depending how much you originally received – it could be quite an expensive deal.<br><br>Schemes that provide income may involve buying an annuity. This gives you an income payable for the rest of your life in exchange for a lump sum. The total income paid out will depend on how long you live. If you don't live long, the scheme will turn out to have been very poor value. Some schemes guard against this by offering 'capital protection', so your beneficiaries get back a lump sum if you die within the first few years after taking out a scheme. The lump sum will be the purchase price of the annuity, less the income payments made to you. You pay for this option through a reduction in the income. See the **FSA guide to pensions 3: Annuities and income withdrawal** for more information. See *Useful contacts* on page 18 for how to get a free copy. |
| **Inflation and rises in house prices** | Typically, annuity-based schemes and some drawdown schemes give you a fixed income. As prices rise over the years, this income will buy less and less. For example, £100 will buy more today than £100 in ten years' time.<br><br>With lifetime mortgages with a shared appreciation element and home reversions, the amount the scheme provider gets when your home is sold depends on how the value of your home has changed since you started the scheme.<br><br>If house prices rise steeply, you or your beneficiaries may turn out to have paid a very high price for the scheme. On the other hand, if house prices rise slowly or even fall, you will have had a good deal. Make sure you are comfortable taking this risk before entering into such a scheme. |

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| **What happens to my partner if I die?** | As long as the scheme is in both your names, the arrangements will continue with your surviving partner (ie they can stay in the home). If the home and scheme were in your sole name the property would have to be sold and your partner would have to find somewhere else to live (unless for example they could repay the lifetime mortgage in full). |
| **What happens if I or my partner need long-term care?** | Your equity release scheme will usually carry on unchanged if care is provided in your own home or just one of you moves to a residential or nursing home. If you both move into a care home, the equity release scheme will usually end and your home will normally be sold. For more information about long-term care, see the FSA factsheet **Paying for long-term care**. See *Useful contacts* on page 18 for how to get a free copy. |
| **Should I discuss this with my family?** | It may be a good idea to discuss this with your family and a solicitor. Taking out an equity release scheme will mean less for your beneficiaries when you die. On the other hand, your family may be able to help you meet your financial needs. You should think carefully about your preferences for your estate. Some schemes ensure part of your home is preserved for you or your beneficiaries. |
| **Can I lose my home?** | There are two main reasons why you might be at risk of losing your home: if you can't pay the interest on a lifetime mortgage (where payments are required), or you can't pay the rent with a home reversion.<br><br>There may also be other reasons, for example if you do not maintain your home properly. With a home reversion, check the lease carefully to make sure you understand the terms and conditions. If you don't understand something, ask the company or your legal adviser.<br><br>**Home income plans** usually have both a fixed income and a fixed mortgage rate. That way, you can be sure you'll continue being able to cover the mortgage interest payments.<br><br>Some **home reversions** pay out a higher lump sum or regular income if you agree to pay more than just a token amount of rent. You should think about whether you are sure you will be able to carry on paying the rent in future years. |
| **What if I decide to move home?** | Most equity release schemes can be transferred if the new home is acceptable to the lender. This may not be the case if you are moving to sheltered housing. You should check for any restrictions with the lender.<br><br>If you are moving to a lower-value property, you will usually have to repay part of a lifetime mortgage or repay part of a home reversion from the proceeds of selling your home. |

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| **What if I decide to move home? (continued)** | If the scheme can't be transferred, you would have to pay off the whole amount from the proceeds of selling your home. You might then be left with too little equity to buy a new home.<br><br>With a lifetime mortgage think carefully about the effect of the roll-up of interest on the loan. If your lifetime mortgage has a shared appreciation element, depending on how house prices change, the amount you have to pay back to the lender could be quite high and you may have less than you expected with which to buy a new home.<br><br>If you pay off a lifetime mortgage early, you may also face early repayment charges. Find out from the lender. |
| **Can I cancel?** | If you change your mind, you can pay off a **lifetime mortgage** at any time but there may be a charge for doing so. Find out from the lender what you have to pay.<br><br>You can't cancel **home reversions**. |
| **What about other changes in circumstances?** | You might take out an equity release scheme while single but later decide to share your home (for example with a new partner or a carer). You may be able to transfer the scheme into your joint names – check with your scheme provider. But usually this will not be possible if the person moving in is relatively young (less than, say, age 60). In that case, the person would not be able to stay in your home if you died or moved house. |
| **What if I have a complaint?** | If something goes wrong on a lifetime mortgage, contact the intermediary or lender to put matters right. They have a procedure to follow when dealing with complaints. If you're not satisfied with their response, you may be able to take the matter to the Financial Ombudsman Service. The firm will give you details. See also the **FSA guide to making a complaint about financial services.** See *Useful Contacts* on page 18.<br><br>**Remember, though, that the FSA does not currently regulate the sale of home reversion schemes,** so if something goes wrong with one of these schemes you cannot take the matter to the Financial Ombudsman Service. The government has announced that the FSA will regulate these schemes in the future, but it is too early to say when this will happen.<br><br>A voluntary industry code is offered by **Safe Home Income Plans (SHIP)**. Some lifetime mortgage and home reversion providers belong to this organisation, which operates a complaints scheme for home reversion schemes. For more information see *Useful contacts* on page 18. |

## What does FSA regulation of lifetime mortgages mean for you?

The lifetime mortgages currently available involve the lender taking a first legal charge over your home. In other words your home is the security for the loan, and the lender has first call on its value. The sale of these mortgages is usually covered by FSA regulation as long as other conditions are met (for example the property has to be in the UK).

To sell these lifetime mortgages, advisers must usually be authorised by the FSA or must be agents for authorised firms. Lenders must be authorised by the FSA. This means they have to follow our rules when dealing with you. The following information summarises the key points from our rules that apply to these mortgages.

**To check whether a firm is authorised, contact the FSA Firm Check Service at www.fsa.gov.uk/consumer (follow the link) or call 0845 606 1234 (calls rates may vary).**

## Making sense of lifetime mortgage advertisements

Firms selling lifetime mortgages must follow FSA rules designed to make sure that advertisements, product brochures and other promotions are clear, fair and not misleading. So:

- where the advantages of a particular feature of a lifetime mortgage are shown, any disadvantages of that feature must be equally clearly stated;
- the annual percentage rate (APR) must be quoted whenever any price information is given; and
- if there's a fee for advising on or arranging your lifetime mortgage, the actual or typical fee must be quoted.

If you think an advert doesn't meet our criteria, then we want to hear about it. You can call our Financial Promotions Hotline on 0845 730 0168.

## What about advice?

When you ask about a lifetime mortgage or home reversion scheme you will normally be given information such as printed leaflets, and the person you speak to may describe the product or service. But getting this sort of information does not mean you're getting advice specific to your needs and circumstances.

- Most firms advising on lifetime mortgages need to be FSA-authorised or to be agents of authorised firms, and these firms must follow our rules when dealing with you. They may also be able to give you advice about home reversion schemes, but remember that this is not covered by our rules.
- Our rules mean that you have a right to expect the adviser to recommend only the lifetime mortgages that are suitable for you.
- If the recommended lifetime mortgage is unsuitable for your specific needs and circumstances based on the information you provided, you can complain to the firm and expect compensation for any loss.
- You don't have to take advice before you take out a lifetime mortgage. But if you don't take advice and the lifetime mortgage you choose turns out to be unsuitable, you will have fewer grounds for complaint.

## What documents will you get?

### keyfacts™ about our lifetime mortgage services

When you contact a lender or intermediary about a lifetime mortgage they will usually have to give you a keyfacts document, which will tell you about the service they can provide. If the firm also offers home reversion schemes, the document will be headed keyfacts followed by the words **about our lifetime mortgage and home reversion scheme services**. The information it contains is in numbered sections. Alternatively, you may get a keyfacts document which covers investment and/or insurance products, as well as lifetime mortgages.

**Section 1** simply states that the FSA regulates financial services and that we require them to provide the document.

**Sections 2, 3 and 4** will explain what's being offered and whether you'll have to pay for the service. The form will contain boxes and the firm will tick the relevant ones.

Section 2 will tell you whether the firm offers products from the whole market, from a limited number of companies, or from a single company.

For information or advice based on the full range of lifetime mortgages (and home reversion schemes if the firm offers them), choose a firm that offers a 'whole of market' service.

If the firm can offer products from only a limited number of companies, or only one, you might want to shop around even if you are getting advice. This is because a particular lifetime mortgage (or home reversion scheme) might be suitable for you, but it might not be the best one for you. Lenders and reversion companies will usually sell only their own products.

Section 3 will tell you whether the firm will advise and make a recommendation for you after they have assessed your needs, or whether they will not offer you advice or a recommendation. If they do not offer you advice they may ask you some questions to narrow down the selection of products that they will provide details on. You will then need to make your own choice about how to proceed.

Most companies will offer advice, but not all. Some will give you advice only if you ask for it, so check this out before booking an appointment. If they don't offer the product range or service that you want, then try another firm. Use the information in the keyfacts document to help you shop around.

Section 4 will tell you whether you will have to pay the firm a fee, and if so how much, when you apply for a lifetime mortgage (or home reversion scheme).

The information in this section will tell you whether you will have to pay for the firm to advise on or arrange the lifetime mortgage or home reversion scheme. It will not give you details about how much the lifetime mortgage or home reversion scheme will cost you.

You will receive a keyfacts illustration when considering a particular lifetime mortgage (or further information about a particular home reversion scheme), which will tell you any fees relating to it.

If the firm charges a fee **Section 5** will tell you when all or part of it may be refundable.

The firm must also provide the following details, though not necessarily in this document. But they must be given to you before you apply for a lifetime mortgage.

- That the firm are regulated by the FSA and what business they're permitted to do.
- What to do if you have a complaint.
- Whether they're covered by the Financial Services Compensation Scheme.

## Keyfacts illustration about this lifetime mortgage

You'll get a keyfacts illustration (KFI) when a lender or intermediary gives you information about a particular lifetime mortgage and that information is tailored to you (for example, based on the amount you want to borrow). You will recognise it by this sign keyfacts™ followed by the words **about this lifetime mortgage**.

Firms must give you a KFI:

- whenever you ask for one;
- whenever they recommend a particular lifetime mortgage for you; and
- before you apply for a lifetime mortgage.

Because home reversion schemes are not yet regulated by the FSA, any information you receive on one of these schemes will not be in the form of a KFI and is not covered by FSA rules.

## What is a KFI?

The KFI summarises important features of the lifetime mortgage and must be clear, fair and not misleading. It must be presented in a standard way, so you can easily check the cost and terms of the lifetime mortgage and compare it with other similar lifetime mortgages. Use it to help you understand what each lifetime mortgage offers and to shop around for the best deal for you. Make sure you understand what you are buying. If you don't understand something, don't be afraid to ask. If you are unsure, take advice.

## What's in the KFI?

There are 15 or 16 short, numbered sections explaining the important points about the lifetime mortgage on offer. The KFI is personal to you and will include details you've provided to the lender or intermediary. The KFI will be based on an estimated term (minimum 15 years) calculated on your age and life expectancy. Remember that the lifetime mortgage could run for a longer or shorter time than this estimated term. If you want to see another KFI based on a different term, ask the lender or intermediary.

**Section 1 About this information** This explains why you're being given the document, and that you can use it to shop around and compare one lifetime mortgage with another.

**Section 2 Which service are we providing you with?** Check this against the earlier 'keyfacts' document you were given about the service, and ensure you're happy with the level of service offered.

**Section 3 What is a lifetime mortgage?** This contains a short summary of how a lifetime mortgage works.

**Section 4 What you have told us** This will include, for example, the amount you want to borrow and the purchase price or value of the property. The rest of the information in the KFI will depend on what is shown here, so you should check that these details are correct or, if not, ask for another KFI.

**Section 5 Description of this mortgage** This describes the particular lifetime mortgage, including the interest rate and whether there are any restrictions or other products you must take out. It also shows the estimated term on which the KFI is based.

**Section 6 Benefits** This shows what you will receive as a lump sum and/or income. It will also show any other benefits such as a no-negative equity guarantee.

**Section 7 Risks – important things you must consider** This shows important information including how the lender will treat negative equity if it arises, when the lender might have the right to repossess your home and whether the lifetime mortgage can be transferred to another property.

**Section 8 What you will owe and when** This section will show what you have to pay if payments are required under the lifetime mortgage. However, if the lifetime mortgage is a roll-up mortgage, it will show how the amount you owe will build up over the estimated term.

**Section 9 Will the interest rate change?** If the interest rate is not fixed, this section will show you how your payments (if required), or the amount you owe, could increase if, for example, interest rates go up by 1%.

**Section 10 How the value of your home could change** This section shows what would happen if the value of your home went up or down by 1% each year over the estimated term, to help you think about how this could affect the amount of money left over for you or your estate after the mortgage is repaid. Of course, this is just an example.

**Section 11 What fees must you pay?** This lists the fees and charges you must pay to the lender or intermediary, when they must be paid and whether they're refundable.

**Section 12 Insurance** This explains whether you have to take insurance from the lender to get this deal, or whether you can buy insurance elsewhere – and if you do buy elsewhere whether you'll be charged for doing this. It will also show other optional insurance.

**Section 13 What happens if you do not want this mortgage any more?** This lists what the early repayment charges may be and, if you were to move house, whether you could transfer the loan to another property.

**Section 14 Additional features** This lists any extra features that might be available including whether you can apply for more money later on.

**Section 15 Overall cost of this mortgage** This shows how much you will pay in total over the estimated term of the lifetime mortgage. But if the interest rate on your mortgage can change, you may pay more or less than this.

**Section 16 Using a mortgage intermediary** If you use an intermediary, this tells you how much commission they will get from the lender for arranging the lifetime mortgage.
If you don't use an intermediary, this section will not be included.

**Make sure you get a KFI, and that you read and understand it. Use it to shop around and compare.** When you're ready to apply for the lifetime mortgage, make sure that you understand all the features, including the benefits and risks, shown in the KFI. Whether you take advice or not, you should still do as much as you can to satisfy yourself that the lifetime mortgage you buy is right for you.

## Next steps

The lender will assess your application by valuing the property, checking that you are who you say you are and – if you have to make monthly payments – seeing whether you can afford the lifetime mortgage.

Once all this is done, you will get a lifetime mortgage offer document that includes an updated version of the KFI. Compare this with the original KFI. This is your final chance to check you are happy with all the terms and conditions of the mortgage. If anything is not clear or if there are differences you don't understand between the KFIs, talk to the lender.

**Make sure you read and understand the lifetime mortgage offer document before signing up for a lifetime mortgage. Ask the lender to explain anything you don't understand. Don't sign until you're sure the lifetime mortgage is right for you.**

## Useful contacts

### Age Concern

*For free factsheets:*
Freepost (SWB 30375)
Ashburton, Devon TQ13 7ZZ
Tel: 0800 00 99 66 (freephone)
Website: www.ace.org.uk
*Factsheet 12 Raising income or capital from your home*
*Factsheet 13 Older homeowners – financial help with repairs and adaptations*

### Charities

*Charities may be a source of financial help with unexpected expenses. Counsel and Care may be able to suggest suitable charities – see below or contact your local council for information about local charities.*

### Citizens Advice Bureau

*For help sorting out debt problems and advice on State benefits:*
Look in the local telephone directory under 'Citizens Advice Bureau'.
Websites: www.nacab.org.uk and www.adviceguide.org.uk

### Council of Mortgage Lenders (CML)

*The trade association for mortgage lenders.*
3 Savile Row, London W1S 3PB
Tel: 020 7437 0075
Website: www.cml.org.uk

### Counsel and Care

*For advice about entitlement to State benefits and charities that can give financial help with unexpected expenses:*
Twyman House
16 Bonny Street, London NW1 9PG
Tel: 0845 300 7585
Email: advice@counselandcare.org.uk
Website: www.counselandcare.org.uk

### Help the Aged

*For advice about entitlement to state benefits and free information sheets:*
207–221 Pentonville Road, London N1 9UZ
Tel: 020 7278 1114
SeniorLine: 0808 800 6565 (freephone)
Website: www.helptheaged.org.uk
*Information sheet 21: Equity release plans*

### The Home Improvement Trust

*A not-for-profit organisation, arranges equity release schemes specifically to fund repairs, improvements or adaptations to your home.*
Freephone: 0800 783 7569
Website: www.hitrust.org

### Warm Front Plus

*Offers grants for people aged 60 or more and on a low income, or disabled, to insulate their home or to install energy-efficient central heating.*
Tel: 0800 952 0600

### Home Improvement Agencies (HIA)

*For help arranging home improvements and advice on financial help available. To find your local HIA:*

- **England**
  Foundations
  Bleaklow House, Howard Town Mill
  Glossop, Derbyshire SK13 8HT
  Tel: 01457 891 909
  Website: www.foundations.uk.com
- **Scotland**
  Care and Repair Forum Scotland
  236 Clyde Street, Glasgow G1 4JH
  Tel: 0141 221 9879
  Website: www.care-repair-scot.org.uk
- **Wales**
  Care and Repair Cymru
  Norbury House, Norbury Road
  Fairwater, Cardiff CF5 3AS
  Tel: 029 2057 6286
  Website: www.careandrepair.org.uk
- **Northern Ireland**
  Fold House
  3 Redburn Square, Hollywood
  Co Down BT18 9HZ
  Tel: 02890 428314
  Website: www.foldgroup.co.uk

### Department for Work and Pensions (DWP)

*For information about State benefits:*

- Benefit Enquiry Line
  Tel: 0800 88 22 00
  Website: www.dwp.gov.uk

*For information about Pension Credit:*

- The Pension Service
  Tel: 0800 991234
  Textphone: 0800 169 0133
  Website: www.thepensionservice.gov.uk

**Financial adviser (to find one)**
IFA Promotion
Tel: 0800 085 3250 (freephone)
Website: www.unbiased.co.uk

Matrix Data UK IFA Directory
Website: www.ukifadirectory.co.uk

The Personal Finance Society
Website: www.thepfs.org/findanadviser

**HM Revenue and Customs**
*For information about tax:*
From your local tax office or any HM Revenue and Customs Enquiry Centre
Orderline: 0845 9000 404
Website: www.hmrc.gov.uk
*Booklet IR121 Income tax and pensioners*

**Local authority or local council**
*For information about council tax benefit, home repair and improvement assistance and local charities that might be able to help:*
See the local phone book under the name of your council or get contact details from your local public library.

**Money advice agencies**
*For help sorting out debt problems:*

- Consumer Credit Counselling Service
  Wade House
  Merrion Centre, Leeds LS2 8NG
  Tel: 0800 138 1111
  Website: www.cccs.co.uk
- National Debtline
  Tel: 0808 808 4000 (freephone)
  Website: www.nationaldebtline.co.uk
- Community Legal Service (CLS)
  Directory Line: 0845 608 1122
  Website: www.clsdirect.org.uk

**Safe Home Income Plans (SHIP)**
*Some equity release providers belong to this organisation. All schemes offered by SHIP members offer a no-negative-equity guarantee.*
PO Box 516
Preston Central PR2 2XQ
Tel: 0870 241 6060
Email: info@ship-ltd.org
Website: www.ship-ltd.org

**Solicitor (to find one)**

- (England and Wales) Law Society
  113 Chancery Lane, London WC2A 1PL
  Tel: 020 7242 1222
  Website: www.lawsociety.org.uk
- (Scotland) Law Society of Scotland
  26 Drumsheugh Gardens
  Edinburgh EH3 7YR
  Tel: 0131 226 7411
  Website: www.lawscot.org.uk
- (Northern Ireland) Law Society of Northern Ireland
  Law Society House
  98 Victoria Street, Belfast BT1 3JZ
  Tel: 028 90 231614
  Website: www.lawsoc-ni.org

**Complaints about lifetime mortgages**
*First you should contact the firm that sold you the lifetime mortgage. If you are not satisfied after this stage, you should contact the Financial Ombudsman Service:*

Financial Ombudsman Service
South Quay Plaza
183 Marsh Wall, London E14 9SR
Tel: 0845 080 1800
Email:
complaint.info@financial-ombudsman.org.uk
Website: www.financial-ombudsman.org.uk

**Financial Services Authority**

The FSA publishes the following free guides:

*FSA factsheet: Paying for long-term care*

*FSA guide to pensions 3: Annuities and income withdrawal*

*FSA guide to financial advice*

*FSA guide to making a complaint about financial services*

To get copies call the FSA Consumer Helpline: 0845 606 1234 – or visit the FSA Consumer website: www.fsa.gov.uk/consumer

To find out whether a firm is authorised, follow the link on the Consumer website to the Firm Check Service.

## The Financial Services Authority (FSA) is the independent watchdog set up by government to regulate financial services and protect your rights.

Our Consumer Helpline can answer general queries about financial products and services, tell you if a firm is authorised, and help you if you have a complaint and don't know who to contact.

We also produce a range of user-friendly factsheets and booklets available from our website and helpline. But remember that, as the regulator, we can't recommend firms or advisers or tell you whether a particular product is right for you.

## Our website, www.fsa.gov.uk/consumer, aims to help you understand financial services and get a fair deal.

### Use the site to:

- shop around with our comparative tables – including mortgages, pensions and ISAs;
- check whether a particular firm or person is authorised – if you use an authorised firm you have access to complaints procedures and compensation schemes if things go wrong;
- order any of our wide range of consumer publications;
- report any misleading financial advertising;
- see explanations of financial products in plain English;
- read recent alerts we have issued.

If you have difficulty with this material in its current format, please call the Consumer Helpline on 0845 606 1234 or minicom/textphone on 0845 730 0104 (call rates may vary).

To help us maintain and improve our service, we may record or monitor calls.