YOUR HOME FINANCE
Finance Made Easy

Guide to Equity Release

In your later years, you may be hoping to unlock some of the value in your property. Equity release could be a way for you to access additional money and supplement your retirement income. However, it is not right for everyone and it's vital that you understand the risks before making any decisions.

What is equity release?

Equity release allows homeowners aged 55 and over to access some of the money tied up in their property without downsizing. This is either in the form of a loan (lifetime mortgage) or a home reversion plan where you sell some, or all of, your property to a provider. In both cases, you will reduce the value of your estate.

In 2024, equity release customers borrowed a total of £2.3bn.[1] It is a big decision and can be complicated, so you should seek professional advice if you are considering this option.

1 - Equity Release Council

Lifetime mortgages

Lifetime mortgages are the most common type of equity release. It is like a typical mortgage, but you aren't required to make monthly repayments. A percentage of your home's value is released and paid to you either in a lump sum or in a series of smaller payments. You will not repay your loan until you or the last surviving borrower dies or moves into long-term care.

Just like a mortgage, you are charged interest on the money you borrow. Most lifetime mortgages have a fixed interest rate, but those with variable rates will have an upper limit for the life of the mortgage. The interest can be 'rolled up' until the end of the mortgage, meaning it will be compounded and paid off by your estate along with the capital repayment. Or you can opt to pay back the interest in monthly instalments to reduce the amount you ultimately owe.

To take out a lifetime mortgage, you need to be aged 55 or over. The property must be your main residence, in a reasonable condition and over a certain value (usually £70,000).[2] How much you can borrow is calculated based on the value of your home and your age. Normally, you can borrow up to 60%[3] of the property's value.

- **Advantages:**
  - **Borrowers still own their home and can ultimately benefit from any increase in value, offset by interest accruals.**
  - **If you receive the money via a drawdown plan, you only pay interest on the amount you've taken out so far.**
- **Drawbacks**
  - **You may have to pay an early repayment charge if you choose to repay the plan early.**
  - **Interest can rapidly increase and you will need to pay interest on the accumulated interest. To avoid this, you can include 'inheritance protection' on your plan which preserves some of your property's value.**
  - **If you live for many years after releasing equity, there is a risk that the amount you owe in interest overtakes the value of your home. To mitigate this, you can usually opt for a 'no negative equity' guarantee.**

Most people think equity release is only available on the home you live in, but there are also options if you own other properties. Some providers offer plans that let you release equity from a buy-to-let or second home, as long as the property meets their requirements. This can be a useful way to unlock funds without selling, whether you'd like to top up your retirement income, reinvest, or support your future plans.

2,3 - Legal & General.

Home reversion plans

With a home reversion plan, you sell all or part of your property in return for money. You no longer fully own your home, but you and your partner can stay living there until the last surviving person dies or goes into permanent care.

Like a lifetime mortgage, you receive the cash either as tax-free lump sum or in regular, smaller payments. This is not a loan, so you don't have to pay anything back at the end of your life and you do not accrue interest.

The amount of equity you can sell to a provider depends on your specific circumstances and the provider won't pay the full market price for their share in the property. When your property is sold, the proceeds will be shared proportionally. For example, if a provider purchased 60% of the property, they would get 60% of the sale and the remaining 40% will go to your estate.

- **Advantages:**
    - **Customers know exactly how much of the property they own and what proportion of the sale will go to the beneficiaries in their Will. There will be no surprise debts to repay as there is no accruable interest.**
    - **If you have not sold all your home, your heirs will still benefit proportionally from any increase in the property's value.**
- **Drawbacks:**
    - **The provider will pay less than the market value for their share of the home, as it could be a long time before they get the proceeds from the property's sale.**
    - **If you die or move into long-term care shortly after starting a home reversion plan, you may have sold off some of your home for significantly less than the real market value. Some plans do offer a rebate if this happens within a certain time frame.**
    - **According to the government's Money Helper, "The risk is higher than standard mortgages". This is because home reversion plans can affect your tax planning, inheritance and eligibility for benefits.[4]**

Retirement interest-only (RIO) mortgages

An RIO mortgage is an alternative to equity release for those wanting to borrow

4 - Money Helper

against the value of their home. It may be an option for those who no longer qualify for a standard mortgage, as you only repay the interest each month. Like an equity release product, you don't have to pay the loan back until you die or go into long-term care.

Equity Release Council standards

The Equity Release Council sets industry standards for home reversion plans and lifetime mortgages. It is therefore important to work with a financial adviser to find

a suitable product which meets these standards and is regulated by the Financial Conduct Authority (FCA).

According to the Council, lifetime mortgages[5] plans must meet the below standards unless clearly stated otherwise:

- For lifetime mortgages the interest rate must be either fixed or, if variable, have a fixed cap. Both of which must be fixed for the life of the loan.
- You must have the right to remain in your property for life or until you need to move into long-term care, provided the property remains your main residence for the life of the mortgage with all terms and conditions being maintained.
- You have the right to move to a suitable alternative property and transfer your lifetime mortgage (subject to lending criteria at the time of move) as long as you abide by the terms and conditions of your contract.
- The product must have a 'no negative equity guarantee'. This means that when your property is sold, and agents' and solicitors' fees have been paid, even if the amount left is not enough to repay the outstanding loan to your provider, neither you nor your estate will be liable to pay any more.
- You have the ability to make repayments without incurring any charges, subject to lending criteria of the provider.
- If you need to move permanently into long-term care, any early repayment charge will be waived by the lender upon receipt of a medical practitioner's certificate, provided that the terms and conditions of the loan have been met.

Top tips

Talk it through with us

Taking out an equity release plan is not a decision to be made lightly. We will take

5 - Equity Release Council

the time to understand your specific circumstances and explain the risks involved. Contact us for advice today.

Are you sure?	It's important to be aware that if you did decide to downsize, you might not have enough equity left to finance the move.
Consider the alternatives	Work with a qualified adviser to draw up a budget so you can be sure you are not releasing any more equity than you need to. There might be other ways of accessing money, depending on what you want to use it for – for example, you might qualify for a local authority grant if you are intending to make home improvements.
Talk to your family	Discuss your intentions with your family before taking out a plan, as their inheritance will be affected.
Get a joint plan	If you are in a couple, a joint equity release plan will enable each person to stay living in the home if their partner dies or moves into permanent care.
Get a 'no negative equity' guarantee	To ensure that your loan and interest isn't larger than the value of your property, use a 'no negative equity' guarantee.
Take control of your loan	If your finances allow, reduce your borrowing costs by making voluntary penalty-free partial repayments.
Drawdown lifetime mortgages are flexible	With a drawdown lifetime mortgage plan, you receive the loan in stages rather than as one lump sum, so you can leave some of the equity in reserve for later. Interest is only accrued on the money that has been paid out.
Be mindful of your benefits	Taking out an equity release plan may impact your entitlement to means-tested state benefits in future. Consult an adviser to understand how your benefits would be affected.

Prepare for the costs incurred	Depending on the provider and your plan, you may have to pay an arrangement fee, valuation fees and legal fees.
Seek advice	The plan with the lowest interest rate isn't always the most suitable one for you. An adviser can help you find a plan that is right for your needs.

[1] **Equity Release Council, 2025**

Your home may be repossessed if you do not keep up repayments on your mortgage. A lifetime mortgage is a long-term commitment which could accumulate interest and is secured against your home. Equity release is not right for everyone and may reduce the value of your estate.

It is important to take professional advice before making any decision relating to your personal finances. Information within this document is based on our current understanding and can be subject to change without notice and the accuracy and completeness of the information cannot be guaranteed. It does not provide individual tailored investment advice and is for guidance only. Some rules may vary in different parts of the UK.