

USING AN EQUITY RELEASE SCHEME TO FUND YOUR CARE

If you need to fund your long-term care and have already paid off, or nearly paid off, your mortgage, an equity release scheme is one option to consider. But, equity release isn't for everyone, so use this guide to help you decide.

What is equity release?

Equity release is a way of benefiting from the value of your home and accessing some of the money tied up in it, without having to move out.

Equity release schemes aren't used exclusively to fund long-term care.

But because they're designed to generate additional income or lump sum, they might be suitable for this purpose.

There are two main types:

- lifetime mortgage arrangements; and
- home reversion plans (where part or all of the property is sold).

How do equity release schemes work?

Lifetime mortgages

With a lifetime mortgage, you take out a loan secured on your home which doesn't need to be repaid until the end of the mortgage term (when the borrower sells the property, dies or moves permanently into a care home).

There are two main types of lifetime mortgage.

- **An interest roll-up mortgage.** You get a lump sum or are paid a regular amount and are charged interest that's added to the loan. This means you don't have to make any regular payments. The amount you borrowed, including the rolled-up interest, is repaid at the end of your mortgage term when your home is sold.
- **An interest-paying mortgage.** You get a lump sum and make either monthly or ad-hoc payments. This reduces, or stops, the impact of interest roll-up. Some plans also allow you to pay off capital, if you want to. The amount you borrowed is repaid when your home is sold at the end of your mortgage term.

Home reversion plans

With a home reversion plan, you sell all or part of your home at less than its market value in return for a cash sum.

You then stay on in your home as a tenant, paying no rent.

You can often sell parts of your home over time. For example, 25% now followed by another 25% in a few years' time.

There is no day-to-day interference and no restrictions in treating the house exactly as before – as a private home to live in freely.

Find out more in our guide [How to pay for your long-term care at home](#)

Sale-and-rent-back schemes

In a sale-and-rent-back scheme, you sell your home at a discount. In return, you stay living there as a rent-paying tenant for a set length of time.

See our guide on using [Sale-and-rent-back schemes](#)

The Equity Release Council

Most equity release providers are members of the Equity Release Council (formerly known as Safe Home Income Plans or SHIP) and provide what's called a no-negative-equity guarantee – alongside a range of other standards.

This means that under a lifetime mortgage your total debt is guaranteed to never be more than the value of your property and won't be passed on to your family.

All Equity Release Council providers are bound by a strict code of practice, which should offer you these guarantees.

- All customers can stay in their property until the end of the mortgage term (when the surviving borrower dies or moves into long-term care). It must be their main residence and they must abide by the contract's terms and conditions.
- The plan's benefits, variations, limitations and obligations must be clearly explained.

- Each borrower must have an independent solicitor who they see face-to-face. The solicitor will then sign a certificate confirming that the plan has been clearly explained to the customer and that they understand it.
- The solicitor's certificate must detail the effect of the loan on the property, for example, what happens after the sale of the property.
- For lifetime mortgages (specifically roll-up mortgages), interest rates must be fixed. If they're variable, there must be a 'cap' (upper limit) which is fixed for the life of the loan.
- The product must have a 'no negative equity guarantee'. This means that when your property is sold, and agent's and solicitor's fees have been paid, even if the amount left is not enough to repay the outstanding loan, neither the customer nor the estate will be liable to pay the difference.
- You have the right to move your plan to another suitable property without being charged financial penalties. This is subject to the new property being acceptable to the product provider as continuing security for the equity release loan.

Important safeguards

The Financial Conduct Authority (FCA), the UK's financial services regulator, regulates equity release schemes.

This means that firms advising on or selling these products have to meet certain standards and provide clear complaints and compensation procedures.

It is important to always get independent financial advice before committing to an equity release scheme. Your individual circumstances need to be assessed and this is why financial advice is a must in the process and a regulatory requirement. An adviser will explain what is involved, discuss the options and alternatives available to you and any implications regarding state benefits, local authority support and tax obligations.

Could an equity release scheme be right for you?

When it comes to long-term-care planning, equity release schemes can be useful, but only if you're looking to fund care in your own home and you do not qualify for local authority support.

However, if you think you'll soon need to move out into residential care, then equity release probably won't be suitable.

That's because equity release arrangements require you to

repay the loan in full if you move permanently into a care home.

How much equity could you release?

This will depend on a number of factors, such as how much your property is worth, your age and the product you choose.

Also, some providers might be able to offer larger sums to those with certain medical conditions, or even 'lifestyle factors' such as a smoking habit.

How much does it cost?

Make sure you are aware of all the costs before going ahead.

You might have to pay:

- legal fees
- a valuation fee
- buildings insurance
- early repayment charges, if you want to redeem the mortgage early
- an arrangement fee to the mortgage lender, known as an 'administration' or 'application' fee
- a fee to your adviser for their advice regarding your options and recommending the most suitable plan from the range available
- a completion fee. This can be paid at the point of completion or added to the loan.

Other things to be aware of

You'll need to check whether releasing equity from your home will affect your tax situation and any state benefits or local authority support.

Equity release schemes are designed to be a lifelong commitment, so if you need to move home at a later date you could find your options are restricted.

Next steps

Top tip

Discussing your plans with your family can help to manage their expectations about inheritance and avoid any disputes later. They may also be able to come up with alternatives.

Equity release schemes are only one of the ways to help self-finance long-term care.

Make sure you've considered all the alternatives, such as

selling your property to downsize to a cheaper one, or using savings to buy an annuity that will cover your care costs. Consider grants or subsidised loans if you're raising capital for home improvements or modifications.

See our guide on [Ways to pay care home fees](#)

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Get independent advice

If you do decide to go ahead with an equity release scheme, it's essential that you speak to an independent financial adviser, preferably one with the specialist CF8 qualification on advising on the funding of long-term care.

See our guide to [Help funding care – how to get advice](#)

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