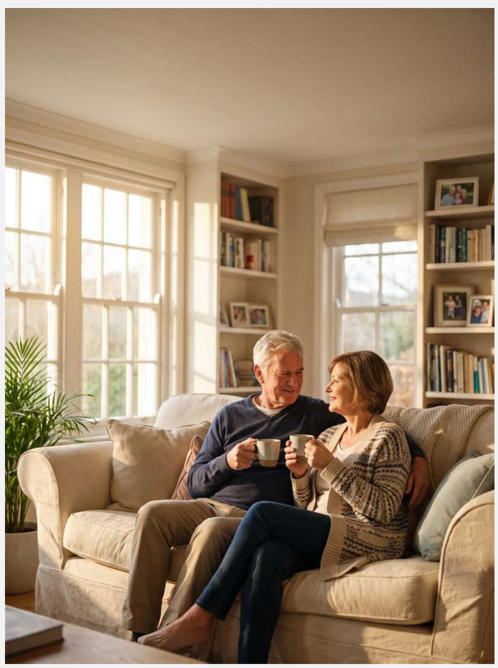
A CLEAR, NO-JARGON GUIDE

The Beginner's Guide to

Equity Release in Derbyshire

What it is, how it works, and whether it might be right for you



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Before we start

If you're reading this, you've probably heard the phrase "equity release" somewhere and want to know what it actually means, without the sales pitch. That's exactly what this guide is for.

We put it together for homeowners across Derby and the wider Derbyshire area who are thinking about their finances later in life. There's no obligation attached to reading this, and nobody will call you because you downloaded it. It's simply here to help you understand your options before you make any decisions.

We've kept the language plain on purpose. Equity release comes with a lot of technical terms, and it's easy to feel like you need a finance degree just to follow the conversation. You don't. By the end of this guide, you should have a solid grasp of the basics and a good idea of what questions to ask next.

What is equity release?

In simple terms, equity release lets you unlock some of the value tied up in your home and turn it into cash, without having to sell up and move out. You carry on living in your house exactly as before. The difference is that instead of that money sitting locked away in bricks and mortar, some of it becomes available to you now.

It's aimed at homeowners aged 55 and over, and it's usually used to top up retirement income, help family with a deposit, cover care costs, clear an existing mortgage, or simply make later life more comfortable.

Worth knowing

Equity release isn't a loan in the traditional sense. There are no monthly repayments to keep up with. Instead, the amount you owe, plus interest, is usually repaid when you die or move into long-term care, normally from the sale of the property.

The two main types

1. Lifetime mortgage

This is the most common form of equity release in the UK. You take out a mortgage secured against your home while retaining full ownership of it. Interest is charged on the amount you borrow, and because there are no monthly repayments, that interest is added to the loan and builds up over time (this is called "rolling up"). Some lifetime mortgages now let you pay off some or all of the interest as you go, if you'd prefer to slow that build-up.

2. Home reversion

With this option, you sell part or all of your home to a reversion company in exchange for a lump sum or regular payments, but you keep the legal right to live there rent-free for the rest of your life. It's less common than a lifetime mortgage, partly because you're giving up ownership of a share of your property rather than borrowing against it.

Most people who look into equity release end up choosing a lifetime mortgage, which is why we'll focus mainly on that for the rest of this guide.

Why the balance can grow faster than expected: compound interest

With a lifetime mortgage, if you don't make any repayments, the interest you owe doesn't just sit still. Each year, interest is added to what you originally borrowed, and then the following year, interest is charged on that new, larger total, not just on the original loan. This is called compound interest, and it's often described as "interest on interest".

It's a bit like a snowball rolling downhill. It picks up size gradually at first, then faster and faster the longer it rolls, simply because there's more of it to add to each time.

A simple example

Say you release £50,000 and the interest rate is 6% a year, with no repayments made. After year one, you'd owe around £53,000. After year two, interest is charged on that £53,000, not the original £50,000, taking the balance to roughly £56,180. After 10 years with no repayments, the balance would be approximately £89,500. After 20 years, it would be around £160,000. The longer the plan runs without any repayments, the more the compounding adds up.

This is exactly why the amount you eventually owe can end up being considerably more than the amount you originally released, especially over a longer period. It's not a hidden catch, it's simply how interest works when nothing is paid off along the way.

Can you make repayments to slow this down?

With a standard lifetime mortgage, you're never obliged to make any repayments. But that doesn't mean you're barred from doing so if you'd like to. Many lenders now build some flexibility into their plans, allowing you to make voluntary repayments if it suits you.

These are sometimes called "ad-hoc" or "penalty-free" repayments. In practice, this usually means you can pay off a portion of the interest, or even a small amount of the loan itself, without being charged an early repayment fee, provided you stay within the lender's allowance. Many plans allow up to around 10% to 12% of the amount you originally borrowed to be repaid each year on this basis, though the exact figure varies from lender to lender.

Making repayments in this way can meaningfully slow down how quickly compound interest builds up, without committing you to a fixed monthly bill you have to keep up with. Most flexible plans let you start, stop, increase, or decrease these repayments whenever suits you, so if your circumstances change, you're not locked in.

Worth asking your adviser

Not every lifetime mortgage offers this flexibility, and the rules on how much you can repay, and how often, vary between lenders. If slowing down the interest matters to you, mention it early on so your adviser can point you towards plans specifically designed with this option in mind.

The pros and cons, honestly

What people tend to like about it

- You get access to money without having to sell your home or move out
- You still fully own your property (with a lifetime mortgage)
- Most plans come with a "no negative equity guarantee", meaning you or your estate will never owe more than the property is worth when it's sold
- The money is tax-free and you can usually spend it however you like
- You can often choose to make interest payments if you want to reduce how much builds up over time

What to weigh up carefully

- The amount you owe grows over time if you don't make any repayments, because of the interest rolling up
- It will reduce the amount of inheritance you're able to leave behind
- It may affect your entitlement to means-tested benefits
- Setting up a plan involves fees, including advice and legal costs
- Some plans carry early repayment charges if you want to pay it off ahead of schedule

A note on regulation

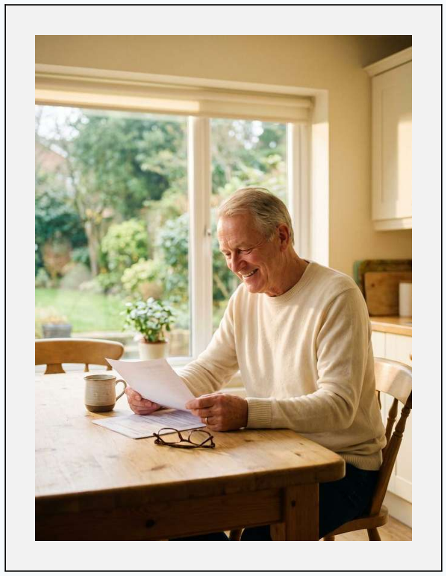
Equity release is regulated by the Financial Conduct Authority, and any advice you receive must come from a qualified, FCA-authorised adviser. That's a legal requirement, not an optional extra, and it's there to protect you.

Who tends to consider equity release?

There's no single "type" of person who looks into this, but some common situations come up again and again:

- Homeowners aged 55+ who are asset-rich but cash-poor, meaning most of their wealth is tied up in their property
- People wanting to help children or grandchildren with a house deposit
- Retirees looking to top up a pension that isn't quite stretching far enough
- Homeowners who still have an outstanding mortgage and want to clear it
- People planning ahead for later-life care costs

It won't be the right fit for everyone, and a good adviser will tell you honestly if it isn't the right fit for you, rather than just pushing you towards a plan.



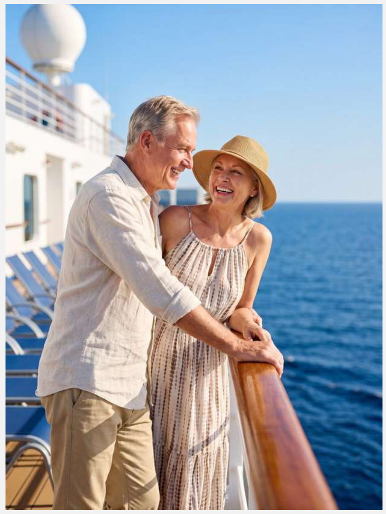
How much could you release?

The amount you can access depends mainly on your age and your property's value. As a rough guide, the older you are, the higher the percentage of your home's value you're typically able to release. This is because lifetime mortgage providers base their limits on life expectancy.

Property type and condition can also affect things. Leasehold flats, ex-local authority properties, and homes needing significant repair work are often assessed slightly differently to a standard detached or semi-detached house.

Try our calculator

For a free, instant, no-obligation estimate based on your own age and property value, use the Equity Release Calculator on our website. It only takes a minute and gives you a realistic starting point before you speak to anyone.



What happens next?

If, after reading this, you think equity release might be worth exploring further, here's a sensible next step:

- Speak to a whole-of-market, FCA-regulated adviser who specialises in equity release, ideally one who is also a member of the Equity Release Council
- Ask them to walk you through your specific numbers, not just general examples
- Take your time. There's no need to rush into anything, and a good adviser won't pressure you to
- Involve family in the conversation if you can. It often helps, since equity release affects the estate you leave behind

At Mortgage & Finance Arena, we're based in Derby and work with homeowners across Derbyshire and the wider East Midlands. We're proud members of the Equity Release Council, and equity release is just one of the areas we specialise in, alongside residential mortgages, commercial finance, and second charge lending.

If you'd like to talk it through with no pressure and no obligation, we're happy to help.

Important information

This guide is for general information only and does not constitute financial advice. Equity release will reduce the value of your estate and may affect your entitlement to means-tested benefits. Think carefully before securing debts against your home. Your home may be repossessed if you do not keep up repayments on a mortgage secured against it. Mortgage & Finance Arena Ltd is authorised and regulated by the Financial Conduct Authority (FCA Ref: 706676) and is a member of the Equity Release Council.