Equity release explained

Equity release: Home reversion

Home reversion: how it works

A home reversion provider will offer you below market value for a share of your home.

By selling a share of your property, you become a co-owner but continue to enjoy the right to live in it for the rest of your life.

The way home reversion works makes the cost harder to estimate than with a lifetime mortgage. You surrender a percentage of your property in exchange for a sum based on its current value, but the ultimate cost is based on its price at the end of the deal.

The three main providers of home reversion schemes are currently Bridgewater, Hodge Lifetime and Newlife.

In the same way that lifetime mortgage lenders vary the amount they are prepared to advance according to age, home reversion providers demand a bigger share of equity from younger borrowers and less from those that are older.

You can usually sell between 25% and 100% of your property to the provider, but the amount you get in return will be significantly less than that share you surrender. The older you are, the more you'll get, but at age 65, for example, a 20% advance can mean surrendering 70% of your property's value.

The Which? Money Helpline has a team of qualified experts that can help answer your questions on equity release. Sign up to Which? for just £1 and speak to one of our experts.

Home reversion: the cost

In February 2013, we looked at the three main providers to see how much it would cost to take out a home reversion loan.

For a 65-year-old couple with a home worth **£250,000**, Bridgewater would advance **£50,000** as a lump sum (20% of the home's current value), in exchange for a **72.3%** share of the property. If property prices rise by **1.5%** each year, the £250,000 house would be worth **£336,714** after 20 years. At this point, the firm's share would be **£243,578** and the couple's **£93,135**.

In the same scenario, Newlife would take a **73.8%** stake in the property (worth **£248,495**), leaving the couple **£88,219**, while Hodge Lifetime would take **59%** (worth **£198,661**), leaving them **£138,053**.

In all our worked examples, home reversion is a far more expensive option than a lifetime mortgage. If interest rates were to rise, or house prices to fall substantially over the long term, the comparison would be a lot closer.

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- For more information on equity release, talk to our experts on the Which? Money Helpline
- Exploring your options? Read our expert guide, introduction to personal pensions
- For alternative options, take a look at our guide to annuities

Equity release: Lifetime mortgages

Equity release: Is it right for you?