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More Homeowners Turn to Equity Despite Rising Loan Costs

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— Categories: Real Estate



Homeowners across the UK are increasingly turning to equity release schemes to access funds tied up in their properties, despite the rising cost of borrowing. New figures show a 10% year-on-year rise in equity release lending during the second quarter of 2025, highlighting growing interest among older property owners seeking financial flexibility.

According to recent data, homeowners borrowed a total of £636 million between April and June through equity release products. This comes as the average annual percentage rate (APR) for such loans rose to 7.24% over the same period, up from 6.64% a year earlier. The

increase reflects continued pressure from rising government bond (gilt) yields, which influence borrowing rates across the market.

Rising Demand

The Equity Release Council's latest quarterly report revealed that 14,404 customers accessed equity from their homes in the second quarter of 2025, up 1% from the previous year. The trend suggests more over-55s are looking to unlock housing wealth as part of their retirement plans or to support family members.

David Burrowes, chair of the Equity Release Council, noted that demand is being driven by people using property wealth to “manage debt, boost income and support their wider families.” He added that the sector continues growing steadily as more borrowers tap into greater housing equity.

Equity release, most commonly offered as a lifetime mortgage, allows individuals aged 55 and over to take out a loan secured against their home without needing to move out. The loan and interest are usually repaid when the property is sold following the borrower's death or moving into long-term care.

The report also found that drawdown lifetime mortgages are gaining in popularity. These plans allow homeowners to withdraw smaller amounts of money when needed, rather than taking the full loan as a lump sum upfront. Interest is only charged on the money withdrawn, making it a more cost-effective option over time.

More than half of new borrowers chose drawdown products in Q2 2025. On average, initial withdrawals were around £65,856, with an additional reserve of £53,338 left for future use. The data shows a clear shift compared to previous years, with borrowers now taking a smaller share of their total loan at the outset.

Those who chose a lump sum release took an average of £126,422, which marks a 14% increase compared to last year.

Equity release can be an effective solution for those who are asset-rich but cash-poor, particularly in later life. It can provide a financial cushion for everyday expenses, home improvements, or private care fees. However, the arrangement comes with financial implications.

Since no repayments are usually made during the life of the loan, interest builds up over time and compounds, which means borrowers can owe significantly more than they initially received. This can ultimately reduce the value of the estate left to beneficiaries.

Furthermore, the loan must be repaid before any inheritance is distributed. As a result, financial advisers recommend having an open discussion with family members before proceeding with any equity release deal.

Before taking out any equity release loan, individuals must seek advice from a regulated financial adviser. This is a requirement set by the Financial Conduct Authority (FCA) to ensure consumers fully understand the terms and long-term effects of the agreement. The Equity Release Council provides a directory of qualified advisers who specialise in these products.

Equity release may not be suitable for everyone. Homeowners who are unsure may want to explore alternatives such as downsizing to a smaller home, which could release significant equity while avoiding interest charges. Some banks now offer retirement interest-only (RIO) mortgages, which allow borrowers to pay off the interest each month, with the loan balance repaid from the property's sale.

Other possible options include unsecured personal loans or credit cards, which offer lower borrowing costs for smaller amounts. Additionally, those with spare rooms can consider the government's Rent a Room scheme, which allows up to £7,500 a year in tax-free income from renting out part of their home.

As borrowing against property continues to rise, experts stress the importance of making well-informed decisions, particularly during a period of higher interest rates and wider economic uncertainty.