Ready, steady… but not quite go

Older home owners and equity release: a review

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Key findings

Equity release – a means by which older people can use the 'free' capital (the value not covered by a mortgage) in their homes to raise loans to pay for improvements, repairs, a new car or a holiday – has been around for almost 40 years.

But bad outcomes leading to negative publicity have held back their development. Many of the people who would most benefit may have insufficient value in their homes to take advantage.

The Government hopes that such products may help older people fund repairs to their homes and long term care but there are many hurdles to be overcome before that becomes a reality.

- Most equity release products are administratively complicated and expensive, and many do not meet the needs for relatively small sums, below the minimum advances. Those who would benefit most often live in properties where the value is too low to qualify.

- Bad outcomes in the 1980s led in some cases to negative equity, and financial disaster including repossession. Action is needed to rebuild public confidence.

- There is widespread expectation that regulation of mortgage-based schemes by the Financial Services Agency from 2004 will give confidence to providers and customers. But concern about reversions has led to a desire that standards of regulation should be comparable to mortgage-based products.

- There is still a perception that the balance of risk in equity release products favour providers. There may be an argument for limiting windfall returns in a sharply rising market.

- Government hopes that equity release will be used to fund long-term care for many people this may be unrealistic in the current climate of free or generous state care. Organisations such as the Consumers' Association continue to push for the state to shoulder the burden of financing care in old age.

- Local authority responses to the Regulatory Reform Order on Housing Renewal 2002 covering a mixture of grants and loans for improvement foresee a key role for home improvement agencies which will need to gear up the expected high level of demand from 2004. But there is little evidence that they are really prepared for this role.

- The direct involvement of Age Concern England or other national organisations representing the interests of older people would doubtless do much for confidence among potential consumers. But they would need to be able to offer appropriate products.

- A better understanding of what motivates consumers to enter a contract for an equity release product would allow products to be refined to better match the needs and priorities of potential consumers. At the moment, the ratio of enquiries to contracts completed is high.

1 Introduction and summary

The massive growth in home ownership over the past 50 years, means that increasing numbers of people are entering retirement owning sometimes significant levels of equity. It is perhaps not surprising that many would like to use some of that equity to help fund or even enhance the standard of living to which they have become accustomed, or to assist with care and other support when they need it.

Over the years, various products have been introduced in an attempt to tap this market through equity release products such as loans, reversions and remortgaging. But these have not been without problems, and have in part inhibited their development.

But there is increasing interest in developing products. It could provide lenders with new prospects for expansion at a time when traditional markets are static. Government has also seen the potential for getting older people to use their ‘free’ equity to fund a variety of needs in later life.

This report considers the current state of play, the obstacles to development, and what could be done to make systems work better and more efficiently towards enhancing the lives of older people

Defining products and demand

At present, a lack of fit between products and the potential market is the most fundamental deficiency in equity release. The minimum value of property threshold is too high, draw-down levels are too inflexible, and administrative expenses are too costly.

Many older people are looking for a simple line of borrowing so that they can draw on in relatively modest amounts to finance lifestyle items such as a holiday, a new car, a new kitchen, a conservatory or replacement doors or windows. Even those who wish to finance more fundamental works of repair or improvement to their homes often need access to sums of a few thousand pounds at a time.

Others may wish to fund an operation or other episode of care - even here the need is for smaller sums than those generally offered as the minimum advance. For smaller sums especially, the administrative costs associated with these loans seem excessive.

Very many older people live in lower value properties: often they will be among those who might see the greatest benefit in access to this type of product but the value of their property is too low to qualify.

There is still little known about what motivates consumers to enter a contract for an equity release product. The ratio of enquiries to contracts completed is high.

Greater attention might be given to the circumstances that trigger an application. Anecdotally it seems, for example, that a significant number of applicants are widows whose circumstances have deteriorated significantly on the death of their spouses.

A better understanding of this and other scenarios would allow products to be refined to better match the needs and priorities of potential consumers.

Negative attitudes and publicity

The folk memory of bad outcomes from the late 1980s is still strong. The knowledge that products that released equity led people into negative equity, re-possession and financial disaster creates apprehension for many older people. Some of these cases are still not resolved and from time to time picked up by the press. Organisations such as the Consumers' Association are committed to keeping the issue alive.

To lay this ghost a gesture is needed from the lenders to settle outstanding cases, perhaps by foregoing all claims beyond the current value of the property, or the value at the point the borrower died. If the introduction of regulation is to act as a springboard for the re-building of public confidence then the gesture to settle all outstanding contentious cases should come before regulation arrives.

There is sporadic evidence of increased promotion through the media. For example the *Daily Express* recently carried a promotion with Key Retirement Solutions that included extensive coverage in the paper and the offer of free explanatory booklets. Media attention is rarely consistently in one direction and it is worth noting that a few weeks later the same newspaper gave prominence to negative elements of the reports on equity release contained in the August edition of *Which?* magazine.

The impact of regulation

There is a widespread expectation that both providers and consumers will draw comfort from the introduction in autumn 2004 of regulation by the Financial Services Agency. For providers it will allow them to market equity release products as 'safe' and respectable.

For consumers it will indicate that these are mainstream financial products in which they may have the same confidence as in more familiar forms of mortgage. There are widespread concerns about the position of reversions and a desire that the consultation that the Government has proposed should result in comparable standard of regulation to that for mortgage-based products.

But in many quarters there is a perception that the balance of risk in the operation of equity release products still favours providers. While consumers may be protected against negative equity if the market declines with some products they may suffer disadvantage where the property appreciates steeply.

In these circumstances they may find themselves surrendering a proportion of the improved value that represents an astronomic effective rate of interest. In these circumstances there may be an argument for limiting such windfall returns in a sharply rising market.

Equity release for long term care

While the Government may hope that equity based products will help people make provision for their long-term care in old age there must be some doubts as to whether this is a realistic prospect in the current climate. The provision of free nursing care for old people in England, more generous arrangements in Scotland and continuing debate in Wales, encourage individuals to assume that they do not need to commit themselves to making such arrangements as, somehow, the difficulties will be resolved.

Natural reluctance to enter such arrangements is stiffened into resistance by the opposition of such organisations as the Consumers' Association to the very notion that anyone but the state should shoulder the burden of financing care in old age.

Local authorities and home improvement agencies

Local authorities are required to respond to the flexibilities offered them in the Regulatory Reform Order on Housing Renewal 2002 by producing a strategy statement setting out how they will use a mixture of grants and equity based loans to encourage repair and improvement in housing stock within their area. The promotion of borrowing as an alternative to grants for older home owners will only start to bite in most areas in 2004/5 and thereafter as local authorities work through the detail of the schemes through which they will offer appropriate forms of loan.

In many cases it is the Home Improvement Trust (see page 26) that has been cited in strategies and success will depend on their ability to gear up to a potentially high level of enquiry in the months following the simultaneous implementation of strategies in many local authorities.

In rolling out an equity loan based strategy to finance repairs in the homes of older people, home improvement agencies are expected to play a key role. There is little evidence that the majority of HIAs are really geared up to deal with their end of the process. Foundations, the co-ordinating body for HIAs in England, is still preparing for the role it may need to play in supporting agencies.

Their colleague organisation in Wales - Care and Repair Cymru - has had the benefit of working with a variety of pilot equity release arrangements through HIAs in Wales.

Building confidence

The direct involvement of one or other of the main national organisations representing the interests of older people would doubtless do much for confidence among potential consumers. Help the Aged does not see itself as a provider of these products but does retain a close interest in the field and a concern that the interests of older consumers should be protected.

The commercial and insurance arm of Age Concern England is an obvious prospect for entry into this market but would need to be able to offer appropriate products that address the fundamental difficulties identified above. If such an initiative were to come from ACE it would have a significant impact upon consumer confidence and the prospect of higher business volumes.

2 Whose agenda, whose priority?

The first reversion income scheme was introduced by Home Reversions in 1965. During 1972, the first home income plan based on a mortgage and annuity was issued. Cash reversion plans were introduced in 1978 by JG Inskip & Co. (later incorporated under Home & Capital Trust Ltd). In 1986, Stalwart Assurance (later named G E Life) and Allchurches Life Assurance introduced schemes.

Unsafe schemes including investment bond schemes and roll-up plans with variable interest rates began to appear in 1988. These left many elderly people in financial difficulties and were banned in 1990.

Over this period the potential for growth has been frequently talked up but take-up has been slow. In part this reflects the experience of those in the late 1980s who, having taken out equity release products, found themselves with unsustainable debts when the value of their house failed to increase at a rate to match the accumulation of interest. It also suggests that older people are reluctant to sell cheaply - as they perceive it - what they have built up through sacrifice and consistent endeavour over twenty-five or more years.

In public policy - and at least some parts of the finance industry - the prospect of a rising generation of older people spending their accumulated equity, rather than passing it on to their children, remains attractive. The reasons for persistence with a product whose time always seem not quite to have come, are diverse.

Government priorities - long term care

The ageing of the UK population holds out to government the prospect of increasing demand for care and health services with an unsustainable impact upon public finance. To quantify the likely demand and to consider the alternative styles of provision and means of funding government appointed the Royal Commission on Long Term Care, chaired by Professor Sir Stewart Sutherland.

Part of the political background to the creation of the Royal Commission was growing public disquiet about the circumstances of people who had been required to fund their care by selling their homes on admission to residential or nursing home care. That dwindling minority of older people who had their long-term care needs met in an NHS hospital or nursing home were not required to contribute in the same way and this was seen to be inequitable.

The report of the Royal Commission's investigations *With Respect to Old Age* was published in 1999. Although government rejected the main recommendation on free personal care, most of the other recommendations were accepted, including the provision of free nursing care, whether delivered in hospital or in another setting, such as a nursing home.

The deliberations of the Royal Commission gave new currency to the notion that future generations of older people would need to provide for their own long-term care and that equity-based financial products might provide a means of doing that without the total surrender of the property. The willingness of government to fund nursing care indicated where they thought the line should be drawn.

It marks a shift from a situation in which the long-term care needs of the majority of older people are wholly funded by government to one in which the financial responsibility is shared.

If individuals are to meet the non-nursing costs of their long-term care then for most the equity in their homes will be the only likely source of funding. Although the financial products to match this particular requirement are not readily available, and older people show no marked enthusiasm to take them up, government policy in this area is likely to persist in encouraging the perception that this is the way forward.

Average House Price (2001) £115,700 (Council of Mortgage Lenders) Average Retirement Fund (2001) £24,000 (Association of British Insurers)

Government priorities – funding major repairs and improvements

It has been the position of government over a number of years that the primary responsibility for repair and renewal to owner-occupied property lies with the owner. The degree to which those with limited financial resources beyond the value of their home and those who face particular difficulties through age or vulnerability might have work funded through grants from public funds has gradually reduced.

The Regulatory Reform Order on Housing Renewal (2002) amended the provisions of the Housing Grants, Construction and Regeneration Act 1996 in relation to grants to fund renovation and minor repairs. In place of the grant provisions of the 1996 Act, the Regulatory Reform Order on Housing Renewal gave local authorities flexible powers to make grants and to make - or facilitate the making of - loans to fund renovations and repairs. Each local authority was required to prepare a strategy setting out the needs of its own area and how they proposed to use the new powers to meet these identified needs.

Many local authorities have prepared strategies that include the introduction of loans to owner-occupiers to finance major repairs. Some have signalled continuing work to bring forward loan schemes in the second or subsequent years of their strategy others are looking to introduce them within the current year.

In most cases ‘off the shelf’ arrangements are being entered into with intermediaries, such as the Home Improvement Trust (see page 26). Others are seeking to establish arrangements that will re-produce the pattern established by the Aston Re-Investment Trust, generally on the basis of a local consortium of local authorities.

The target set for this shift in the funding of major repairs is that 50% of renovation should in future be funded by loans. Many local authorities now have the aspiration to move in that direction in their statements of strategy, but practical steps to deliver on the target may still be some way off.

Equity release - an untapped market

At present equity release products are offered by a relatively limited number of providers. Currently Norwich Union and Northern Rock are believed to have about 80% of the market although some sales are through smaller building societies selling Norwich Union products. It is still perceived to be a niche market and the apparent reluctance of the general public to buy, means that potential new entrants to the market are less enthused. Set against this is the recent entry of new providers - membership of the trade organisation SHIP (Safe Home Income Plans) has grown by 50% in a year.

An awareness of past adverse publicity for providers when matters turned out badly means that new entrants will be likely to stick to a limited range of products already on offer. This strategy gives the reassurance of knowing others are already in the market and if things go wrong the consequences for commercial reputation will be widely shared, rather than being visited upon them alone.

Quite apart from inhibitions that may arise from public reluctance to buy, or past adverse publicity, there are also technical difficulties for lenders in this market. In conventional mortgages money comes back quite quickly as people move, pay off their loan and start again. On the other hand, roll-up mortgages present a problem as nothing comes in through the period of the loan and there is no set term. Because these loans cannot be readily securitised - as other mortgage lending can be - they remain on the balance sheet of the lending organisation.

Some potential new entrants to the market are believed to be awaiting the regulation of mortgage-based products that will come into force in the autumn of 2004, believing that the public will have greater confidence in products formally regulated by the Financial Services Agency. Mortgage-based products are already covered by the Council for Mortgage Lenders Mortgage Code but FSA Regulation is believed by some to offer the public greater perceived reassurance.

Nevertheless, at a time when the rest of the market is seen to be static, the possibility of growth in this area is seen by some funders to be attractive. Although figures for the total value of products being sold are difficult to establish, it does appear that sales of mortgage-based products are growing rapidly.

The sheer level of un-mortgaged equity among older homeowners is held out to providers as virgin territory for business development. In Professor Philip Leather's report for the Council of Mortgage Lenders he estimated the potential market for these products at around £46bn.

Along with this comes some evidence that attitudes to inheritance among those people in early old age, and those now approaching old age, are changing. Among these cohorts of older people there may be greater willingness to draw on their accumulated equity.

Consumer requirements

Many already working in this area of financial services recognise that consumer confidence in equity release products is low and older people are generally suspicious both of the products and of the organisations promoting them. Yet, they report, there are high levels of customer satisfaction from existing customers.

Whatever the aspirations of government policy in this area the actual reasons for people drawing on their equity rarely seem to be connected to their long-term care needs or the repair of their home. Many current schemes are written to fund lifestyle - people aspire to maintain the standard of living they enjoyed before they retired. Even modest inflation erodes what a fixed pension provides.

A significant proportion of those taking out equity release products want to re-establish their standard of living, financing a holiday, a new caravan or a new car. Others have non-specific intentions such as providing 'a bit of an emergency fund'. Some wish to redeem their existing mortgage and reduce their monthly out-goings or to consolidate other debts. At the more affluent end of the scale some people may be using equity release as a way of managing eventual inheritance tax liabilities.

Some needs arise where a husband dies and the wife has no income other than state pension. One intermediary reports that around 50% of sales are to women. Long-term care is a minority use for the money. Home repairs and improvements account for a significant proportion of cases. In many cases these will be linked to the future management of property maintenance, such as replacement windows and doors and uPVC gutters and soffits.

3 Equity release products

To those who do wish to draw on the equity in their property there are a range of products that will allow them to do so. All have conditions attached and the choice of the appropriate product may as often be a matter of ‘comfort’ for the borrower as fitness for purpose judged by financial criteria alone. Some may be more comfortable with the security of knowing how much they will owe at the conclusion of the loan, while others will prefer the comfort of knowing they are minimising the cost of borrowing.

Equity release mechanisms (ERMs) are financial schemes, normally mortgage or reversion based, which enable a householder to draw down some of the equity in the house. The amount drawn down is repaid when the homeowner dies or moves out of the house. Repayment can be deferred until the death of the plan holder or a surviving spouse, or the point at which they dispose of the property. In some schemes interest is paid each year, but in others interest (or equivalent capital appreciation) is rolled up and paid when the capital is repaid. With most ERMs the scheme can be transferred to another house if the owner moves.

Re-mortgaging with regular repayment of capital and interest
This is the product with which most home owners will be familiar as many will have originally acquired their property with such a mortgage. Standard mortgage conditions apply - the term will commonly be between five and twenty years with interest at a variable rate. For those who have a reasonable level of income but want to release a lump sum to finance repairs or improvements, or a major purchase this may be an appropriate method. Advances will generally be up to 30% of the value of the property. The advantages are that it is familiar and ‘main-stream’ which will commend it to some borrowers.

Interest-only loans
This is the simplest method for those whose income may be too limited to service a repayment mortgage. No repayments of capital are made by the borrower until their death, when the capital sum is settled through the estate, or if they sell the house against which the loan is secured.

Interest-only mortgages are more affordable for older people than a normal repayment loan but they may still be too expensive for many on low incomes. Those in receipt of benefits in addition to their state pension may be able to secure assistance with interest payments for loans taken out for qualifying purposes, such as to fund repairs.

Home income plans
The most common form of home income plan involves a secured loan that is used to purchase a lifetime annuity that provides a fixed payment at regular intervals until death. The amount of the payments will depend upon life expectancy when the plan is taken out and the rates of return available on annuities at the time of purchase.

The income from the annuity is intended to make the payments of interest and provide a surplus that is available for any purpose the plan holder chooses. Home income plans are restricted to people over 70 as only in these cases do the actuarial calculations provide a sufficient return to meet the interest payments and provide a surplus. Poor rates of return have made it difficult for new entrants to secure a return that does more than service the interest payments.

The plans came into disrepute in the late 1980s when some used alternative mechanisms to invest the funds raised via the loan, in order to secure a higher return than an annuity purchase could provide. As is generally the case, higher returns carried higher risks and in adverse conditions some schemes were unable to generate sufficient income to meet interest payments, still less to provide a surplus. Some plan holders were left with unsupportable and mounting debts leading them into negative equity and, in some extreme cases, re-possession of their homes.

Reverse mortgages or interest roll-up

These are mortgages on which neither capital or interest is repaid during the life of the loan but interest is added to the capital sum outstanding. The major draw-back to this product is that the amount owed can rise very quickly with the total outstanding doubling in around eight years. This product is generally considered only to be appropriate for those over 75 years of age.

In the late 1980s a fall in house values and rise in interest rates led to some borrowers finding themselves in negative equity. For some this resulted in re-possession of their property. Most lenders currently offering this type of product offer a ‘no negative equity’ guarantee so that even if the balance of capital and rolled-up interest exceeds the value of the house it will not be re-possessed. The amount to be repaid from the borrower’s estate or on their sale of the property will not exceed its current market value. If the value of the property exceeds the amount of capital and interest to be repaid the balance belongs to the borrower or their estate.

Shared equity and shared appreciation mortgages

These products provide for loans at nil interest or interest below the market rate. The margin of interest that the lender foregoes is met by the assignment of a share of future equity appreciation. Rather than a share in the whole property the investor receives a share, if any, of the increase in property value during the life of the loan, plus the sum originally advanced.

While the product, when first offered, was popular with borrowers it is less attractive to the money markets, as the lending cannot be readily securitised and for this reason is not currently being offered. Some advisors would warn borrowers against it as in a time of high increase in property values the return achieved by the lender will exceed what might otherwise be regarded as a reasonable rate of interest.

Home reversion

This is not a mortgage but a sale with conditions. The older home owner sells all or part of their property to an investor but retains the right to continue living in the property for their lifetime. The price at which the purchase is made represents a discount on the full market value to reflect that continuing right of occupancy. The level of the discount will depend upon the age and life expectancy of the home owner. There is a degree of 'wager' involved for the home owner: if they die soon after entering the arrangement they may in effect have sold their house at a substantial discount for a limited benefit.

4 What inhibits development

The feeling in some quarters is still strong about the unresolved cases of those who bought equity release products in the late 1980s and subsequently found themselves with insupportable debts. There are still around two hundred cases of people from the 1980s where people owe more than the property value.

Past experience

The Consumers' Association in particular has continued to pursue the matter and to highlight difficult cases. More widely the 'folk memory' of these difficulties is ingrained and refreshed by occasional media attention to individual cases. In a Parliamentary Debate on 14 January, 2003, a number of Members of Parliament drew attention to the circumstances of constituents caught in this situation and called for lenders to act to resolve outstanding cases with sensitivity and generosity.

The refusal of some lenders to freeze interest on old agreements, products that they would not now wish to promote, is seen by some as particularly reprehensible. One respondent in this review expressed a widely held view:

> *"It seems wrong for some lenders to be going out to lend again when they are still adding interest on mis-sold products from last time."*

While characterising the situation as mis-selling may not be strictly accurate it does represent a view that comes to prominence whenever one of these cases receives media attention.

The regulation of mortgage-based equity release products by the Financial Standards Agency from autumn 2004 provides an opportunity for a new baseline in building consumer confidence. This will inevitably be compromised if critics are still able to point to unresolved cases and continuing hardship. The industry must surely consider whether a gesture to draw a line under these difficult cases would not be a worthwhile investment.

Uncertainty among consumers

Much more difficult to overcome is the resistance that arises from the perception that consumers are offered a deal in which the outcome is uncertain. It may be the feeling that an early death will mean that a reversion contract has surrendered the value of the property at a significant discount with little continuing occupation in return, or that longevity may make the accumulated interest on a rolled-up interest mortgage astronomic. (At current interest rates a debt will double in ten years.)

There may have been a reasonable ratio between equity surrendered and money received at the point of purchase but steep equity appreciation will make it look less attractive. Intermediaries report that there are a tremendous number of enquiries that do not proceed and the most common reason would appear to be that many feel it is not value for money.

Loan size and admin costs

There is a general recognition that the current thresholds in relation to the minimum value of the property and the minimum amount to be borrowed are too high in relation to the circumstances and financial needs of many older people. The usual minimum property value of £50,000 excludes many older homeowners, especially in the north of the country. The common minimum amount to be borrowed of £15,000 is much greater than the cost of most projects that older people might be looking to finance.

Some form of reverse mortgage with flexible draw-down has been advocated in many quarters but the returns are unlikely to attract commercial providers. All the costs attached to this form of borrowing, from fees to interest rates are seen to be high compared with other forms of mortgage based borrowing.

Ironically, it is those who are eighty years of age or more who would get best return from equity release products but they are also the most resistant to the idea. The following cohort seem to be more receptive but do not yet stand to see a good return.

Risks for providers

For providers there are a number of inhibitions:

- There is the risk of damage to reputation by association with past, and possible future, difficulties with these products.

- With some products the administrative costs are high in relation to the returns. The average size of the loan needed for home improvements is likely to be around £10,000 (the normal range is around £3,000 - £25,000 though there are a few loans larger than this). A commercial lender would not find these small loans commercially viable unless a third party undertakes all the administration and just presents the commercial lender with completed applications. The cost of arranging the loan is high to the average size of the loan and the margins, if any, are small. Only ‘not for profit’ organisations or charities are likely to want to become involved. Unless the cost of setting up a loan can be reduced to about £500-£600 per case, the scheme will not appear to give good value for money.

- With most products there will be a considerable period before the loan starts to come back and any profit is realisable. Related to this delay there will be difficulty in carrying the charge in the lender’s accounts. This form of lending does not provide a ready opportunity to ‘sell it on’ through consolidation and securitisation.

5 Consumer protection

The Financial Services Agency

The regulation of equity release products based upon any form of mortgage by the Financial Services Agency will start at 31 October 2004. Those organisations engaged in mortgage lending, mortgage administration, advising on mortgages and arranging mortgages will need to be authorised by the FSA.

This authorisation will involve a registration process. Registration will be dependent upon that organisation demonstrating the appropriate levels of professional competence and compliance to the mortgage regulations.

The FSA concluded that equity release products carry more risk than other forms of mortgage because it is much harder to start again if it goes wrong and special issues arise, for example, the impact of releasing equity on benefits, tax issues and so on. Early repayment charges are pretty substantial in relation to these products so it is important for consumers to be properly informed.

There are six regulated activities that relate to mortgages and require authorisation or exemption if they are carried out in the UK. They are:

- Arranging (bringing about) regulated mortgage contracts
- Making arrangements with a view to regulated mortgage contracts
- Advising on regulated mortgage contracts
- Entering into regulated mortgage contracts as a lender
- Administering a regulated mortgage contract
- Agreeing to carry on any of the above.

There are a number of tests, the key one being the ‘business test’ to ascertain whether a business or person requires registration with the FSA or whether they are exempt from registration. A person will only need authorisation or exemption if they are carrying out a regulated activity ‘by way of a business’, that is:

> *“(the person) arranges or advises on regulated mortgage contracts, or does both, on a regular basis and receives payment of some kind (whether in cash or kind and whether from the borrower or from some other person)”.*

Another key distinction is that between advice and information. The FSA takes the position that advice requires an element of opinion on the part of the adviser. In effect, it is a recommendation as to a course of action. Information, on the other hand, involves the neutral statement of facts or figures.

In general terms, simply giving information without making any comment or value judgement on its relevance to decisions that the borrower may make is not advice. For example:

- An explanation of the terms and conditions.
- A comparison of the features of one mortgage or another.
- Leaflets or illustrations that help borrowers decide which type of mortgage to take out.

If information is provided in a selective way that might influence the decision of the client, this may be regarded as financial advice. These distinctions may be crucial. For example, does a caseworker in a home improvement agency merely provide information in suggesting that repair work might be funded through drawing on equity, or do they move across the line into advice-giving by suggesting a particular product as more appropriate?

The FSA will look both for competence and probity in companies and organisations seeking registration and conformity to a set of procedures designed to ensure that consumers are given the fullest information about the products being offered. The first stage of advice is to judge if *any* lifetime mortgage is appropriate in the financial circumstances of the consumer.

The regulation of mortgage-based products deals only with one part of the market. Because reversions are seen to be not a mortgage but the sale of all or part of the property they cannot be regulated by the FSA within its current range of powers. There is widespread concern that one half of the market will be regulated and the other half not. In its pensions Green Paper, the Government has undertaken to consult on appropriate arrangements for the regulation of reversions but there is likely to be a lack of clarity in this area beyond the implementation of regulation for mortgage based products.

Safe Home Income Plans (SHIP)

The response of some within the industry to the difficulties that arose with equity release products in the late 1980s was the creation of Safe Home Income Plans (SHIP). SHIP is a company supported by the leading providers of home income and equity release plans. It was launched in 1991 and sets out to protect planholders and to promote safe home income and equity release plans. All SHIP plans carry a ‘no negative equity’ guarantee.

All participating companies are pledged to observe the SHIP Code of Practice that binds these companies to provide a fair, easy-to-understand and full presentation of their plans. All costs that the applicant has to bear in setting up the plan, the position on moving, the tax situation and the effect of changes in house values must be clearly set out.

The client’s legal work will always be performed by the solicitor of their choice. In all cases, prior to the completion of the plan the solicitor will be provided with full details of the benefits that client will receive. The solicitor will be required to sign a certificate to the effect that the scheme has been explained to the client. The SHIP certificate will clearly state the main cost to the householder's assets and estate, for example how the loan amount will change, or whether part or all of the property is being sold.

The Consumers' Association

In addition to concerns about those experiencing difficulties through past sales of equity based products the Consumers' Association has provided assessments of the products currently on offer. Its most recent report, published in the August 2003 edition of *Which*? magazine, maintains the organisation's sceptical stance in relation to equity release products.

The Association believes that substantial risks for consumers still remain and ask if the risk is equitably shared between consumer and lender. It points to the high return available to lenders through some products in circumstances of early death after taking out a scheme or windfall profit (equating to very high effective rates of interest) in a steeply rising market.

The Consumers' Association is also calling for the resolution of outstanding past cases of hardship, the regulation of both mortgage based and reversion schemes, and the fullest information for consumers. In advice-giving it would clearly wish to see a presumption in most cases against the assumption that any equity release product will be appropriate if there are alternative sources of funding to meet the needs of the consumer.

6 Help the Aged and Age Concern England

Help the Aged
Help the Aged professes itself to be wary of offering financial services and currently limits its activity in this area to the through-selling of some basic insurance products. It neither sees itself as provider and agent of equity release products. On the other hand, it does see the need for more equity release products to be brought to market and wants to participate in consumer protection and the improvement of the quality of products.

Age Concern England
Age Concern regards equity release as a useful option for older homeowners, and believes that the development of safe equity release products should be encouraged. On regulation Age Concern would wish to see the FSA regulating all equity release products, including home reversion schemes.

Age Concern believes that there is a role for government and local authorities to ensure the provision of safer equity release products and to offer non-commercial products, including low interests loans, to make it easier for older people to release equity.

Age Concern England has a flourishing commercial arm that already offers a wide range of financial and insurance products to older people. It relies on the credibility of its 'brand' to reassure older consumers as to the security and appropriateness of their products.

While it would be feasible for the organisation to offer equity release products it is likely that it would wish to match those products more closely to the needs of older people. Thus it might wish to offer their products to those owning lower value properties, to offer the possibility of smaller advances and all within a fee structure that offered manifest value for money.

If Age Concern England were to enter the market and put the power of its brand behind these products it might be expected to have a substantial impact on public perceptions of equity release and the overall level of take-up in the market.

7 Delivery issues

Aston Reinvestment Trust (ART)
ART Homes Ltd is a ‘not for profit’ company limited by guarantee established in June 2000. The company is a wholly-owned subsidiary of Aston Reinvestment Trust, the first Community Development Finance Initiative established in the UK. ART Homes has set out to provide loans for improvement and repair to homeowners who cannot access commercial loans at affordable rates.

It has set up a revolving loan fund with a £250,000 grant from Birmingham Council and over £1million low rate private finance from two commercial lenders. Birmingham has also provided a £50,000 mortgage guarantee fund to help attract private sector lenders. Revenue support funding has also been provided by Birmingham Council, Nationwide Building Society and the Housing Corporation.

Initially, ART will offer secured repayment loans at 1.5 per cent over base rate, but is looking to develop a range of products including small unsecured loans, finance culturally acceptable to Muslims, and equity share products. The premise behind ART Homes is that small loans to low income homeowners are uneconomic in nature and can only be delivered with a partnership between the public and private sectors.

ART Homes aims to lever in private finance to provide the majority of capital for its revolving loan funds at a ratio of £1 public to between £4 and £6 from the private sector, for normal interest bearing lending. The uneconomic cost of this lending is then covered by revenue support from both the public and private sectors.

The ART Homes Ltd product is best explained by an example:

- If a £5,000 loan is required on a £50,000 property then ART Homes secures a loan by taking a charge against 10% of the value of the home.
- When the repayment of the loan is triggered, 10% of the new value of the property is repaid.
- If the property is sold for £60,000 then 10% of the value is repaid, i.e. £6,000.
- The repayment of the loan is triggered by either; a sale of the property; the transfer of ownership of the home; or by the homeowner deciding to repay the loan.
- The homeowner still retains 100% ownership of the property as the loan is secured as an equitable charge against value. A fine distinction, but one that seems to find favour with potential borrowers.

Home improvement agencies

Home improvement agencies have played an increasing central role in the delivery of government policy relating to housing circumstances of older home owners. For many agencies the cornerstone of their operations has been the provision of support to those seeking renovation grants to fund repairs and improvements to their homes. They have also played an important part in the delivery of adaptations for disabled people.

As policy has developed at the inter-face of health, housing and social care, the agencies have operated flexible services to make small but vital interventions relating to safety in the home, prevention of falls, small repairs and minor adaptations.

Major changes in the arrangements through which local authorities encourage repair and renovation in private sector housing were introduced through the Regulatory Reform Order on Housing Renewal 2002. As discussed above, the Order and subsequent Guidance has encouraged local authorities to see equity-based borrowing as an alternative to grants as a means of funding repairs and renovations. In the delivery of these mechanisms to older homeowners home improvement agencies are seen to have a crucial role to play.

The fulfilment of this aspiration is not without problems. Although, prior to 1990, agencies were accustomed to seeking equity-based borrowing to top up the funding available through grants, most have developed in a period of almost total dependence on grant funding. By culture and experience most existing HIAs will find the disciplines involved in providing equity release products extremely challenging.

Government has provided funding to encourage some re-configuration in the home improvement agency movement in England and this is likely to lead to the creation of larger agencies serving an extended area. For the moment many agencies are small with three or four staff.

In these circumstances it is difficult to see how they would be able to meet the requirements of the FSA in relation to providing financial advice. Whether it is sensible for HIAs to become involved in this, and all that it entails, is being questioned by, among others, Foundations, the national co-ordinating body for HIAs in England. It may be the case that some of the larger agencies will take it up but many will not wish to do so.

Those who do not gear up to give financial advice may face difficulties in observing the boundary between this and the other types of advice and support they will be providing to their clients. They may be better stepping out of the loop at that point, and stepping back in again to help with filling in forms once the client has made a decision.

Foundations believes that the best way it can help HIAs is to facilitate their clients' access to independent financial advice. Foundations is talking to bodies that have networks of financial advisers or links to networks of financial advisers. The intention is to see if it is possible to work together for the financial advisers to be adequately trained and informed about HIA client groups, and then to be the contact point for an HIA whose client wants to explore options.

Care & Repair Cymru

In 2001, the National Assembly for Wales made funding available to Care & Repair Cymru and three local Care & Repair agencies (Gwynedd, Swansea and Vale of Glamorgan) to attempt to pilot workable equity release products for older owner-occupiers on low incomes.

Each pilot group was required to develop different singular products. The groups were also required to examine products that would be suitable for those on low incomes, and that were considered marketable and to be value for money.

The pilot projects can only be said to have achieved some limited success. In large part this was due to the continuing difficulties presented by the financial and regulatory frameworks within which they were required to operate. Nevertheless, there has been willingness by all of the partners within the groups to think flexibly and innovatively.

In order to widen the debate and generate further renewed interest in equity release issues within private sector renewal, Care & Repair hosted a seminar on the subject in March 2003. The seminar demonstrated that there is considerable interest among Welsh local authorities in the subject, particularly within the context of the revision of renewal policies under the Regulatory Reform Order on Housing Renewal.

In recent years some research has addressed the issue of equity release for older homeowners. None of this has been specifically directed at the Welsh market. Although many of the issues are similar to those in other parts of the country, there are dimensions that will have a particular Welsh context. Accordingly, Care & Repair Cymru has recommended that the National Assembly for Wales funds research in Wales directed at the identification of demand for equity release.

The National Assembly for Wales is taking steps in connection with exploring the formation of a national intermediary body, through which to funnel bulk lending facilities for onward lending of smaller amounts. Care & Repair Cymru is actively involved in this and regards the proposal as a positive step in securing cost-effective borrowings for older people.

House Proud/Home Improvement Trust (HIT)

HIT is a ‘not-for-profit’ organisation based in Nottingham, operating nationally. It works with lenders, local authorities and home improvement agencies to offer a range of equity release products to older homeowners to fund improvements and repairs carried out through HIAs.

HIT was originally established with funding from Age Concern England and the then Department of Environment, Transport and the Regions. The organisation has a well established record of trying to bring together the various players needed to create a robust supply chain for the delivery of equity-based borrowing to finance repairs to the houses of older owner-occupiers. The Trust is now providing secured loans on a repayment, interest-only and rolled-up interest basis, mainly through Dudley Building Society.

Through its House Proud scheme, first developed with Birmingham City Council and now offered throughout Great Britain, HIT has entered into partnership with a number of local authorities. The requirement for local authorities in England, within their strategies that respond to the flexibility bestowed on them by the Regulatory Reform Order on Housing Renewal 2002, to consider equity-based loans as an alternative to grants has driven a steep increase in interest in House Proud.

Membership - or the stated intention of membership - has allowed local authorities to show that they are moving in the direction of offering loans with relatively little effort on their part. This surge of interest, not necessarily immediately followed by resources in the form of sign-up fees, represents a challenge to the capacity of HIT. At present the evidence is that, while attracting local authorities to the scheme is an achievement, seeing a high volume of applications for equity release products from older home owners may be a quite different matter.

Local authorities joining the scheme pay HIT £10,000 per annum for a period of two years towards the running costs of HIT for the service. They also undertake to pay £500 in respect of each loan arranged by HIT as a contribution towards the costs incurred by the applicants in obtaining a mortgage, which includes legal and valuation fees and other associated costs.

HIT will facilitate the provision of information by way of literature, visual aids and the training of those involved in administering the scheme. It also provides a confidential Freephone Call Centre and Helpline facility for applicants and their families.

HIT will arrange for the provision of the services of an independent financial adviser to provide written advice, free of charge, on the options which may be appropriate, based on the individual circumstances of the applicants. Discounted valuation and legal fees are available to HIA clients seeking loans through HIT. All loans offered have a guarantee of no repossession.

HIT will arrange for the necessary legal services to secure a mortgage, through solicitors appointed by HIT and the loan providers at specially negotiated rates. This will include all local authority and Land Registry searches, registering charges and arranging payments to contractors as appropriate. A valuation service, undertaken by the Valuation Office, is provided at specially negotiated rates.

In addition to its financial contribution the local authority undertakes to ensure that details of applicants who appear to have sufficient equity in their properties and require loans to finance service charges and/or necessary repairs, improvements and/or adaptations are provided to HIT.

The local authority also accepts responsibilities in relation to the work to be undertaken with the finance raised, although these responsibilities will generally be discharged through the local home improvement agency.

The HIAs will ensure that applicants are advised in respect of the works that appear to be required to their properties. They will recommend good quality builders and see that the repair, improvements and/or adaptations are inspected to ensure satisfactory completion that will allow payments to be made to contractors. These inspections will generally operate in accordance with procedures that would have been used in relation to grants.

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