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findings

INFORMING CHANGE

Overcoming obstacles to equity release

Over two million older home owners have housing assets worth over £50,000 but incomes so low that they qualify for means-tested benefits. Drawing on housing equity could improve their quality of life significantly, helping them to live more comfortably in their own homes for longer. But only around 25,000 home owners (of all incomes) conclude equity release deals each year. This study by Rachel Terry and Richard Gibson identifies the obstacles to older home owners with relatively low incomes releasing housing equity and suggests ways of overcoming them. The study focuses on funding home improvements and repairs, and additional care at home.

- The commercial market now has suitable and safe equity release products for most older home owners. But it is still difficult to secure a deal on some kinds of property (such as some former council housing, or accommodation with substantial service charges). Many people remain suspicious of both equity release providers and products.
- Older home owners needing works, or additional care, at home face a complicated process, but help in organising what they need and raising the money is patchy.
- For older home owners qualifying for means-tested benefits, drawing on equity can be hazardous. They can lose so much in benefits that they are little better off. It is sometimes possible to release equity for repairs and improvements without losing benefits. But it is very difficult to do so to pay for additional care at home.
- Pension Credit will usually meet the notional interest payments on an interest-only loan for recipients needing "essential" home repairs and improvements. However, the legislative definition of "essential" is out of date and is not consistent with the Decent Homes Standard.
- The researchers conclude that the following would help older home owners to improve their quality of life through equity release:
  - permit the release of a modest amount of housing equity each year without loss of means-tested benefits, and without increasing charges for council-funded care at home;
  - provide guidance and support to help people organise and raise money for works and additional care at home;
  - share risk between the private and public sectors, where a local authority wants to facilitate equity release in properties for which commercial deals are not available; and
  - offer equity release deals from a local government-sponsored company, using private finance, to increase customer confidence.

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Background

There are now commercial equity release products which are low risk for the home owner and finely priced, bearing in mind the risks for the provider. So for most home owners, lack of reasonable deals to release equity is no longer an obstacle. However, despite most older people knowing about equity release, few of those who could benefit from it to pay for works to their home, or for additional care at home, currently release equity. This study investigates why this is and what the public sector could do to make equity release more attractive to those who really need it. It identifies the obstacles to equity release deals for low-income home owners and ways they might be overcome.

A few local authorities and non-profit housing organisations have been creative in seeking to provide ways in which the least well-off home owners could raise money from their home for works to it. But their solutions have tended to be equity loans rather than equity release. The scale of their operations is expected to remain very small, even on their most optimistic estimates.

The rules of entitlement to means-tested benefits are the decisive consideration leading many older home owners to refrain from drawing on the equity in their home. They are also complex, even for financial advisers. Whilst it is possible to release equity for works on the home with only limited, or no, adverse effect on entitlement to benefits, it is very difficult to do so to pay for additional care at home.

General information on equity release is available from several sources. But once an older home owner seeks to pursue an equity release deal to pay for works to their home or additional care at home, they usually have to orchestrate the professionals and contractors themselves. This is a complicated and unfamiliar task, and help in doing so is very patchy. So it is perhaps not surprising that a large proportion of initial enquiries about equity release deals are never carried to completion.

Obstacles to equity release for low-income home owners

Equity release deals are now readily available for most older home owners, on flexible terms, and at prices only slightly higher than those for mainstream mortgage lending. But people in some kinds of property still face difficulty in securing a deal. Equity release involves significant setting-up costs, particularly if the amount to be raised is relatively small. And such deals are not generally commercially viable for people below retirement age.

There is widespread mistrust of equity release products and providers, and belief that they are not good value for money. Regulation of the sales process by the Financial Services Authority (FSA) does not appear to have been followed by increased demand. The biggest high street banks and building societies have been slow to enter the market while its size remains very small (in their terms), and there is concern that reputations could be damaged by adverse publicity about equity release deals done by others.

For older low-income home owners, guidance on housing and care options can be difficult to find, and help with the practicalities is limited. When equity release is the chosen funding option, it can involve a daunting process with professionals with whom they are not familiar. Help with this process is very limited.

For over two million older home owners with substantial equity in their homes, but incomes so low that they are entitled to benefits, improving their quality of life through equity release is particularly hazardous. They may lose so much in benefits that they are left little or no better off.

Possible solutions

To increase confidence in achieving a successful outcome for older home owners needing works to the home or additional care, much more individual guidance and support is needed. Guidance could provide an informed overview of the ways in which they might be able to tackle whatever need (on housing or care at home) they had identified. If they wished to go ahead, individual support would be available to help them deal with the practicalities, and provide reassurance that they would not be taken advantage of, and would get reasonable value for money. The support role that is needed can be likened to that of a knowledgeable trusted friend. A contribution to the cost might be required from those who could afford it, but the bulk of the cost is likely to have to be found by the public sector.

Although the commercial market now provides equity release for a wide range of customers and circumstances, those living in some kinds of property are still excluded because their home is not expected to grow in value sufficiently (such as some former council housing, or accommodation with substantial service charges). Local authorities might overcome this obstacle, if they were to share the risk on such properties with a commercial provider. For those requiring small sums, the cost of setting up an equity release deal may make that source of funds unrealistic, unless a local authority contributed to those setting-up costs (or made the loan itself).

The widespread suspicion of equity release products and providers may be overcome in time, if they become a commonplace product offered by the familiar high street lenders. Meanwhile, there may be merit in local authorities offering equity release deals themselves, particularly if government introduces a *de minimis* amount which can be raised by equity release without affecting benefit entitlement. It is likely to be more cost-effective for authorities to do so through a funding company sponsored by local government than for authorities to operate individually. If the company's business were conducted on an appropriate basis, it should be realistic for the company to finance the equity release deals from the private sector. The company could also make non-commercial loans, such as small unsecured loans and equity loans without an interest rate, on behalf of a local authority and funded by that authority. The use of such a company may provide reassurance to older home owners needing works or additional care at home, given the endorsement by local government and the potential availability of small sums.

For the many older home owners entitled to means-tested benefits, it can be financially hazardous to draw on the equity in their home to improve their quality of life. By releasing equity, they may be treated as having more capital that could yield a larger income, and so reduce their entitlement to benefits. This can leave them little or no better off. Before considering adaptations to the benefits system related to equity release, there is one case that needs separate consideration. If a home owner entitled to Pension Credit needs to carry out "essential" repairs and improvements to their home, Pension Credit will usually meet the notional interest payments on an interest-only loan. However, by modern standards, the legislative definition of "essential" is out of date. It is therefore suggested that government should revise the definition of "essential" improvements for Pension Credit to be consistent with the Decent Homes Standard.

The Government should reconsider the interaction between the entitlement to benefits and self-help through drawing on equity. It would be particularly desirable to ease the use of equity by benefit recipients to help them to continue living in their own home for as long as possible. It would also be desirable to accept a wider range of home repairs, improvements and care in the home as an appropriate use of equity, without adverse effects on benefit entitlement. But the most helpful change would be to allow a modest amount of equity to be released each year without affecting benefit entitlement. Such a change would be readily grasped, and would enable those using it to do so confidently, without either themselves or their advisers having to navigate the complex details of benefit rules. The cost to the Exchequer would be minimal, as there would be no 'deadweight': virtually no benefit recipient would release such equity at present, because under FSA regulations clients must be advised against equity release if it would lead to a loss of benefits so that they would be little or no better off.

In areas affected by housing renewal, some older home owners could be helped by equity release, but this is not an option for younger home owners. The public sector would have to bridge the gap between the funds the home owner needs and the maximum borrowing they could afford to service, probably with an interest-free equity loan. If the funding company sponsored by local government were to be pursued for equity release lending, it could also make equity loans with funding from the local authority.

Recommendations for policy and practice change

The researchers make five key recommendations.

Make commercial equity release deals more widely available

For local government and equity release providers, this would mean examining the possibility of:

- the private and public sectors sharing some of the risk on those properties the providers will not accept for an equity release deal;
- the private and public sectors sharing some of the costs of setting up deals, where only small sums are required; and
- producing appropriate standard documents and procedures.

Provide guidance and support for the housing and care needs of older home owners

For local government and other organisations providing advice to older people, this would mean:

- examining the feasibility, costs and benefits of providing individual guidance on ways of solving housing and care needs of older home owners, and providing personal support for those home owners in pursuing solutions; and
- reviewing good practice on providing information and advice on care services, to enable older people to remain in their own homes longer, and disseminate this to local authorities and other interested parties.

Ease the consequences for means-tested benefits of taking an equity release deal

For central government this would mean:

- revising the definition of "essential" improvements for Pension Credit to be consistent with the Decent Homes Standard;
- providing a practical way in which older home owners can draw on the equity in their homes to purchase care, without adverse effects on their entitlement to benefits; and
- facilitating the use of moderate amounts (up to £3,000 a year) of equity in people's homes without affecting entitlement to benefits, and making a corresponding change in the requirements for local authorities' charging policies for their home care services.

Examine the support for developing a private sector solution for local authorities to arrange equity release deals

For local government this would mean:

- considering offering equity release deals, particularly if the government agrees to the £3,000 *de minimis* arrangement; and, if there is sufficient interest,
- approaching central government (Departments for Communities and Local Government and of Health) for funding for a detailed feasibility study. The feasibility study would examine the support and practicalities for doing so through a funding company, sponsored by local government and funded by the private sector, and would need to involve representatives of local government and equity release providers.

Facilitate the provision of funding to home owners in areas affected by housing renewal

If a funding company, sponsored by local government, is pursued for equity release, local government could:

- consider developing a secondary purpose of the company to make non-commercial loans, such as small unsecured loans and interest-free equity loans, on behalf of local authorities and Housing Market Renewal (HMR) Pathfinders, with public sector funding.

In view of the very limited options available for younger home owners with mortgages affected by demolition, an assessment should be made of the effectiveness of the variants of the Homeswap scheme that are being adopted by local authorities and HMR Pathfinders. Such an assessment would need to investigate:

- what best meets the home owners' reasonable needs;
- what the benefits and drawbacks are for commercial mortgage lenders of each variant; and
- which variants are the better, or less good, uses of limited public sector contributions to fill the funding gap between what they need to spend and what the mortgage they can afford.

About the project

The study was undertaken by Rachel Terry and Richard Gibson, both independent consultants. It has benefited from dialogue with providers of equity release products and their representative bodies, the Local Government Association, local authorities involved in private sector renewal and social services, Housing Market Renewal Pathfinders, Registered Social Landlords, Age Concern Enterprises, government officials and academics researching equity release. The Chartered Institute of Housing together with JRF held a seminar for practitioners to discuss the preliminary solutions as they were emerging, which informed the final report.

For more information

The full report, **Obstacles to equity release** by Rachel Terry and Richard Gibson, is published by the Joseph Rowntree Foundation.

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Tel: 01904 615905, Email: info@jrf.org.uk

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