Obstacles to equity release

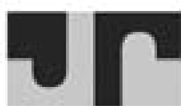
Rachel Terry and Richard Gibson

This report examines the obstacles faced by low-income, asset-rich home owners in drawing on the value in their homes, and proposes ways in which they could be helped to do so, to pay for home improvements and care at home.

The study describes what equity release is, and how it can provide financial help to older home owners. This report investigates why, 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. It asks what the public sector could do to make equity release more attractive to those who really need it.

The study reviews people's views on equity release. It identifies the obstacles to equity release deals for low-income home owners, and outlines how the obstacles could be tackled, including changes to the benefit regime and local-authority-supported schemes. The report concludes with recommendations for how equity release could be made more accessible and take-up could be increased.

This report is relevant to those working to help older people improve their quality of life, to central and local government, and to the financial sector.



JOSEPH ROWNTREE
FOUNDATION

This publication can be provided in alternative formats, such as large print, Braille, audiotape and on disk. Please contact: Communications Department, Joseph Rowntree Foundation, The Homestead, 40 Water End, York YO30 6WP.
Tel: 01904 615905. Email: info@jrf.org.uk

Obstacles to equity release

Rachel Terry and Richard Gibson

JOSEPH ROWNTREE
FOUNDATION

The **Joseph Rowntree Foundation** has supported this project as part of its programme of research and innovative development projects, which it hopes will be of value to policy makers, practitioners and service users. The facts presented and views expressed in this report are, however, those of the authors and not necessarily those of the Foundation.

Joseph Rowntree Foundation, The Homestead, 40 Water End, York YO30 6WP
Website: www.jrf.org.uk

About the authors

Rachel Terry and Richard Gibson are both independent consultants. Rachel Terry specialises in housing finance policy issues. She has extensive experience in developing and implementing innovative financing solutions for many aspects of housing. She has previously researched the market for equity release schemes. Richard Gibson is a former Senior Civil Servant with much experience in developing policy solutions for local government finance and finance for private sector housing.

© Rachel Terry 2006

First published 2006 by the Joseph Rowntree Foundation

All rights reserved. Reproduction of this report by photocopying or electronic means for non-commercial purposes is permitted. Otherwise, no part of this report may be reproduced, adapted, stored in a retrieval system or transmitted by any means, electronic, mechanical, photocopying, or otherwise without the prior written permission of the Joseph Rowntree Foundation.

ISBN–13: 978 1 85935 523 7
ISBN–10: 1 85935 523 4

A pdf version is available from the JRF website (www.jrf.org.uk).

A CIP catalogue record for this report is available from the British Library.

Cover design by Adkins Design

Prepared and printed by:
York Publishing Services Ltd
64 Hallfield Road
Layerthorpe
York YO31 7ZQ
Tel: 01904 430033; Fax: 01904 430868; Website: www.yps-publishing.co.uk

Further copies of this report, or any other JRF publication, can be obtained either from the JRF website (www.jrf.org.uk/bookshop/) or from our distributor, York Publishing Services Ltd, at the above address.

Contents

Acknowledgements		vi
Glossary		vii
Executive summary		ix
1	**Setting the scene**	1
	Background	1
	Introduction to the study	3
	The key attributes of the financial help required	4
	What is possible now – *the commercial market*	5
	What is possible now – *the non-commercial market*	8
	Implications for people on means-tested benefits	9
	Advice, guidance and support	10
2	**Identifying the obstacles to equity release for low-income home owners**	12
	What is equity release and equity lending?	12
	Why isn't equity release and equity lending available to all home owners?	14
	Why is equity release unattractive to some home owners?	20
	Why aren't equity release deals offered by many mainstream financial institutions?	23
	Why aren't equity loans offered commercially at present?	24
3	**Identifying solutions for low-income home owners**	25
	Increasing confidence in a successful outcome	26
	Increasing the availability of appropriate and trusted finance	32
	Reconsidering the incentives and disincentives presented by means-tested benefits	40
	Paying for works or a replacement home, when affected by housing renewal	44
4	**Conclusions and recommendations**	47
	Conclusions	48
	Recommendations	51
Notes		54
Bibliography		55

Acknowledgements

We are most grateful to our project steering group, Kathleen Kelly, Donald Hirsch and Sue Collins, for their support in what we were doing and for providing us with helpful guidance. We also 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. Our thanks to all those we talked to and to the practitioners who participated in the seminar held by the Chartered Institute of Housing together with Joseph Rowntree Foundation (JRF) to discuss the preliminary solutions as they were emerging, which informed the final report.

Glossary

Within the descriptions, terms in *italics* are also defined in this Glossary.

Draw-down: an *equity release deal* that provides for the home owner to draw down sums on an agreed basis over a period of years, rather than as a lump sum. The most flexible draw-down arrangements allow the home owner to draw the sums on demand; some others provide for sums to be drawn down at predetermined intervals, such as monthly or annually.

Equity loan: a mortgage loan where the amount to be repaid is expressed as a proportion of the proceeds of sale of the mortgaged property. Some equity loans also require the payment of interest (either during the loan period or as *rolled-up interest* payable when the property is sold).

Equity release deal: a *lifetime mortgage* or *home reversion*. (This narrow definition is used throughout this report.)

Home reversion: the sale of a property subject to a lease entitling the home owner or partner to continue in occupation, rent-free, until the death or permanent move into residential care of both. At that point, the *provider* of the *home reversion* can sell it and retain the proceeds (or some proportion of the proceeds, if that is what was agreed).

Independent Financial Adviser (IFA): an *intermediary* offering whole-of-market financial advice, and remunerated by fees paid by clients (if the client wishes) by commission. IFAs may choose to advise on a wide range of financial products, or may focus on a more limited range.

Interest-only mortgage: a mortgage loan requiring payment of interest during the loan period, but with no repayment of the loan itself until the mortgaged property is sold.

Intermediary: a general intermediary (as distinct from a *specialist intermediary*) is an organisation (or individual) whose business is the provision of financial advice on a range of financial products, and the arrangement of the sale of those products supplied by *providers* directly or through *specialist intermediaries*.

Lifetime mortgage: a mortgage loan that requires no payments by the borrower until the property it is secured on is sold following the death or permanent move into residential care of both the home owner and their partner. Lifetime mortgages are normally arranged with *rolled-up interest*, subject to a *no negative equity guarantee*, but they can be arranged as an *equity loan*. (This narrow definition is used throughout this report.)

No negative equity guarantee: a guarantee that the maximum amount payable will be the open-market value of the property at the end of a *lifetime mortgage* (usually net of the normal costs of selling), with any remaining indebtedness being cancelled. (Such a guarantee is inherent in the terms of a *home reversion*.)

No possession guarantee: a guarantee that possession of a property subject to an equity release deal will never be sought, even if the growth in the value of the property is falling well short of expectations. (Such a guarantee is inherent in the terms of the typical lease of a *home reversion.*)

Provider: the organisation with which the home owner has the prime contractual relationship in an *equity release deal*. For a *lifetime mortgage*, the provider is the lender; for a *home reversion*, the provider is the organisation that pays the home owner in return for purchasing their property and granting them a lifetime lease. The provider may work directly with the home owner in setting up the deal, though more often sets up the deal through a *specialist intermediary* or general *intermediary*. The provider may work directly with the customer once the deal has been set up, or may work through the *specialist intermediary* or general *intermediary*.

Registered Social Landlord (RSL): a landlord registered with, and supervised by, the Housing Corporation – typically, a housing association.

Rolled-up interest: compound interest charged at intervals between monthly and yearly – often quarterly or half-yearly – and added to ('rolled up' into) the amount borrowed.

Specialist intermediary: an organisation that specialises in introducing prospective customers to *providers*. In a number of cases, this organisation puts its name on the product, and hence may appear superficially to be the *provider* itself.

Executive summary

Introduction

This is the report of a study that identified the obstacles to equity release deals for low-income home owners and ways they might be overcome. Equity release is described in Chapter 1, together with how it can provide financial help to older, asset-rich, income-poor home owners.

The study suggests there are now commercial equity release products that are low risk for the home owner and finely priced, bearing in mind the risks for the provider. 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 has investigated why this is and what the public sector could do to make equity release more attractive to those who really need it.

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. When equity release is the chosen funding option, it can involve a daunting process with professionals with whom they are not familiar. Help with the 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 securing additional care, much more individual guidance and support is needed. This would help people with the practicalities and provide reassurance that they would not be taken advantage of and would get reasonable value for money. This role could 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 sufficiently in value. Local authorities might overcome such reluctance 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 a commercial source of funds unrealistic, unless a local authority contributed to set-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. It is likely to be more cost-effective to do so through a funding company sponsored by local government than for authorities to operate individually. And, 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 might 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 benefits, drawing on the equity in their home to improve their quality of life can be financially hazardous. 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 the equity in their home. 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. 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, they would in many cases be advised not to do so, as the consequent loss of benefit would leave them 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, however, an option for younger home owners. The public sector would have to bridge the gap between the funds the home owners need 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

In Chapter 4, the report makes five recommendations.

1 *Make commercial equity release deals more widely available*. Local government and the equity release providers should examine 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
- producing appropriate standard documents and procedures.

2 *Provide guidance and support for the housing and care needs of older home owners*. Those with some experience in the field should:
- examine 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
- review good practice on providing information and advice on care services to enable older people to remain in their own home longer, and disseminate this to local authorities and other interested parties.

3 *Ease the consequences for means-tested benefits of taking an equity release deal*. Central government should:
- revise the definition of 'essential' improvements for Pension Credit to be consistent with the Decent Homes Standard
- provide 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
- facilitate the use of moderate amounts (up to £3,000 a year) of equity in people's homes without affecting entitlement to benefits, and make a corresponding change in the requirements for local authorities' charging policies for their home care services.

4 *The level of support for developing a private sector solution for local authorities to arrange equity release deals should be examined*. Local government should:
- consider offering equity release deals, particularly if the Government agrees to the £3,000 *de minimis* arrangement
- if there is sufficient interest, approach central government (Department for Communities and Local Government and Department 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.

5 *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 should:
   - 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 who are 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 investigate:

- what best meets the home owners' reasonable needs

- what the benefits and drawbacks are for commercial mortgage lenders of each variant

- which variants are the better, or not so good, uses of limited public sector contributions to fill the funding gap between what they need to spend and the level of mortgage that they can afford.

1 Setting the scene

This chapter explains the background to the study and its focus on low-income, asset-rich home owners. It describes what equity release is and how it can provide financial help to older home owners. It suggests that there are now commercial equity release products that are low risk for the home owner and finely priced, bearing in mind the risks for the provider.

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 report investigates why this is and what the public sector could do to make equity release more attractive to those who really need it.

Background

A significant number of older home owners with low incomes are asset-rich. They could enhance their quality of life through improvement and better maintenance of their home, and by adding to the care that the State provides (or pays for) while they continue to live in their own home. Some buy these enhancements, but a substantial number of others who could benefit from them do not. This study examines the obstacles faced by this latter group in releasing equity from the value of their home and suggests ways in which those obstacles might be surmounted.

The study is concerned primarily with financial obstacles. But some of the obstacles connected with finance arise from people's perceptions, rather than objective attributes of financial products. So, in considering how such obstacles might be tackled, the study offers some suggestions about the guidance and support needs of people, which go wider than the financial issues.

The main financial obstacle is the complexity of raising the money for enhancements to their quality of life, despite owning a valuable asset. Typically, the people who face obstacles are asset-rich but income-poor. Their home is valuable, with little or no debt outstanding against it, but the bulk of their income is a relatively small pension. Equity release deals provide a way of realising value now from one's home, while continuing to live in it. But, for those home owners who depend on state benefits to supplement their low incomes, equity release could leave them little or no better off.

What is equity release?

Equity release is the release of cash now in return for giving up some or all of the value of one's home (the equity).

There are two distinct forms of equity release.

1 A *lifetime mortgage:* a loan that provides cash now, secured by mortgaging the home, with no payments of interest or principal until the property is sold when the home owners have (both) either died or moved permanently into residential care. At that point, the provider of the loan must be repaid the principal, together with the interest that has been rolled up during the period of the loan.

2 A *home reversion:* the sale of the home now, on terms that give the home owners the right to remain in rent-free occupation until (both) have either died or moved permanently into residential care. At that point, the provider of the reversion can sell the home and retain whatever share of the proceeds was agreed under the reversion deal, paying any excess to the person's estate.

In either case, the home owner can choose whether to release all or only part of the equity in their home. Whichever they choose, they remain responsible for keeping the property adequately maintained. Deals normally enable the home owner to move home, taking their deal with them.

The UK equity release market is very small, at about 0.5 per cent of the mortgage market (CML, 2006a), but both the range of customers it serves and the terms of its deals have improved noticeably as further providers and specialist intermediaries have come into the market. There, nevertheless, remain a significant number of income-poor older home owners for whom there does not appear to be a sufficiently attractive equity release solution at the moment.

For the substantial number of older home owners receiving means-tested benefits, the scope for gaining from equity release is determined largely by the rules governing entitlement to these benefits. This report identifies these constraints and how they might be eased.

Introduction to the study

This study is directed to ways in which equity release or an equity loan could improve the quality of life of less well-off home owners in three main groups:

1. older home owners needing to repair or improve their home
2. older home owners needing to contribute to the cost of care
3. home owners needing to raise a substantial sum of money because their present home is to be refurbished as part of a housing renewal scheme or is to be demolished. In this group, a distinction has to be made between older home owners who are aged 60 or more and younger home owners.

For *home improvements*, grant aid has been greatly curtailed since 2003. The Government has given local authorities encouragement, and much greater freedom, to devise creative combinations of private and public finance to pay for improvement work. However, very little finance in these new ways is available (Groves and Sankey, 2005). The commercial market has offers that may help some in this group. However, those wanting amounts of less than £5,000, or living in a property that commercial providers are concerned may not keep up with property values in the area, are less likely to be helped by what the market currently offers.

For *care*, there is discretion for local authorities to cover costs of residential care in certain circumstances, recovering those costs eventually from the sale of property offered as security for the funds. This is effectively an interest-free, equity release lifetime mortgage deal; although it appears that this discretion is used only sparingly; and government support provided through the Deferred Payments Grant was last given in 2003/04 (DH, 2003b).

There is an extremely limited commercial market targeted at helping with the costs of residential care. There is now virtually only one type of product. This provides regular income in return for an equity release deal on the home owner's property, which may still have a partner living in it (Johnstone, 2005).

There appears to be nothing designed specifically to help with the cost of personal care at home where the costs are not met by the local authority, or for domiciliary care. In practice, an equity release deal paid in monthly instalments, a draw-down deal, should be suitable for either situation.

For those affected by *major refurbishment* or *demolition*, often as part of a housing renewal scheme, there can be difficulty in financing the works or in bridging the gap between property values. Many home owners affected are unable to afford a new conventional mortgage loan to refinance their existing mortgage and pay for the works, or, in the case of demolition, to bridge the gap between their compensation and the cost of purchasing another home in the area. The compensation they receive for their present home can fall well short of the price of a comparable home reasonably nearby; and limited compensation may crystallise negative equity.

This report identifies the obstacles that would need to be surmounted to help these groups. It then offers suggestions as to how the obstacles might be overcome or reduced.

The key attributes of the financial help required

All the groups of interest for this study – low-income home owners – are seeking help that has the following attributes:

- they need a lump sum now (and possibly further lump sums in the future) and/or a regular stream of income
- they are offering the value of their home in return either as security for a loan or for sale under a home reversion agreement
- they would make no periodic payments, although most deals allow for *ad hoc* payments at the customer's discretion
- the provider would obtain their return as a lump sum when the customer died or moved permanently into residential care, unless, in the case of a loan, the customer chose to make a repayment sooner
- the provider could not require them to sell prematurely – this is explicit when the provider gives a no possession guarantee
- the home owner's obligations to the provider could never exceed the proceeds from the sale of their home – this is explicit when the provider gives a no negative equity guarantee, as is usual now on almost all commercial deals.

Since the home owner pursuing equity release would be doing so to increase their capital and/or income, it is important that there are no significant adverse consequences to their normal sources of income. Unfortunately, for people receiving means-tested benefits, there can often be substantial reductions in their entitlement as a consequence of releasing value from their home, leaving them little if any better off, despite having given up some of the value of their main asset.

What is possible now – *the commercial market*

There is an established commercial market enabling people to realise value (usually cash) from their home through equity release deals. Around 25,000 home owners a year now conclude such contracts, releasing over £1 billion – an average of more than £40,000 per household (CML, 2006a; SHIP, 2006a).

Equity release deals require an eventual payment determined by:

- for a lifetime mortgage, the amount paid to the home owner, together with the accumulation of interest, at an agreed rate on the amount(s) paid, compounded at intervals between monthly and yearly, depending on the terms of the deal; or

- for a reversion, an agreed share of the proceeds of the eventual sale of the home owner's property.

The great majority of equity release deals are now lifetime mortgages. Reversions accounted for some three-quarters of the value of deals done in the 1990s, whereas they accounted for only about 5 per cent of the value of deals done in 2005 (SHIP, 2006a).

For younger home owners whose home is to be refurbished at an unaffordable cost, or demolished, there are no commercial products with the attributes described above (Cole and Flint, 2006, forthcoming). Some local authorities and Housing Market Renewal (HMR) Pathfinders are making interest-free equity loans to bridge the gap that the home owner cannot afford. The Homeswap scheme (CML, 2005b) is available alongside such a public sector equity loan, where it is in the interest of the home owner and the mortgage lender for an existing mortgage debt on the property to be transferred to the replacement property.

Equity release deals

Equity release deals for older people are available commercially, generally for those aged over 60. For both lifetime mortgages and home reversions, the amounts offered relative to the value of the property appear fairly similar among the providers, typically starting at around 20 per cent for a 60 year old, rising by one percentage point for each year above 60.

Availability of equity release deals in the commercial market has improved noticeably in the last year or so (Baxter and Bennett, 2006). Equity release customers have benefited from the market becoming more competitive. These changes have gone a long way to counter the past criticisms of the drawbacks of equity release deals.

- Prices have fallen: the premium on the interest rate is now slim, as compared with mainstream mortgage lending. For the most competitive deals, the interest rate on a lifetime mortgage is below 6 per cent per annum.

- Draw-down deals are now more readily available: minimum monthly drawings of £50–200 are available from several providers. These deals could be useful in contributing to the continuing cost of care required at home, beyond what the local authority will pay for.

- The minimum size of deal has fallen: relatively small lump-sums (e.g. £5,000) are now available from at least one major lender. This could help people needing modest repairs or improvements to their home. Equity release deals smaller than this are not cost-effective to the borrower, as the arrangement fees and charges are likely to be in excess of £1,000 (see Chapter 2).

- A 'no negative equity' guarantee is given by almost all providers. This removes a major drawback of some of the deals done 15–20 years ago, which are still causing difficulty for some of those who took them.

The market nowadays also provides strong consumer protection. Lifetime mortgages must be offered within demanding regulations set by the Financial Services Authority (FSA, 2006a). The FSA is consulting on corresponding regulations for home reversions (FSA, 2006b); these are expected to be introduced in spring 2007. In the meantime, all substantial providers adhere to additional protection for customers required for membership of the voluntary trade body, Safe Home Income Plans (SHIP), which was set up in 1991 to reduce risks for equity release customers. SHIP members account for over 90 per cent of all equity release business (SHIP, 2006b).

Research (Rowlingson and McKay, 2005) shows that paying for repairs and improvements to the home is the most common use of funds obtained by borrowing against the value of the home (whether by an equity release deal or otherwise, such as by increasing mortgage debt). But use of equity release to pay for care at home is very rare.

For those seeking to pay for residential care, there is a very limited market providing equity release deals, which are used immediately to buy an impaired life annuity (Johnstone, 2005). This annuity provides an additional income to help with the cost of care home fees. Essentially, these are ordinary equity release deals in which the proceeds are invested in a particular way. An insurance market in which premiums could be paid over a long period before care was needed has now virtually ceased. The combination of poor investment returns and escalating costs of care required such large increases in premiums that the offer became extremely unattractive to customers.

There nevertheless remain constraints on the equity release deals that commercial providers will contemplate. This study is concerned with those home owners who are unlikely to be able to raise funds in the current commercial market, as well as those who could benefit from doing so but currently do not do so.

Equity loans

A related product is the equity loan – a mortgage loan on which the amount to be repaid depends on the change in the value of the property. Equity loans can incur interest, but most of those currently offered by the public sector are interest-free. This study considers loans of this kind as a possible solution for home owners under 60 requiring works to their home that they cannot afford under a housing renewal scheme, or needing another home because their present one is to be demolished.

A separate research project for the Joseph Rowntree Foundation (Cole and Flint, 2006, forthcoming) has investigated the key issues relating to clearance, demolition and resident relocation programmes in the HMR Pathfinders. This includes the development of equity loan products. Their study has a particular focus on the range of legal, financial and other forms of support provided to owner-occupiers in low-value properties in areas designated for clearance.

Equity loans are not currently offered commercially by mainstream mortgage lenders. However, the Government is negotiating with three major mortgage lenders to include an element of equity loan in the financing of purchases by first-time buyers

under the New Build HomeBuy scheme, starting in October 2006. Under this scheme, 75 per cent of the purchase will be funded by a conventional mortgage loan and 12.5 per cent as an equity loan from the same lender; it will be supplemented by 12.5 per cent from the Government as an equity loan ranking behind the two loans from the private sector. The Government expects these loans to support about 20,000 new home-owning households a year. It is discussing the detailed terms at present with the Council of Mortgage Lenders (CML) and the FSA.

What is possible now – *the non-commercial market*

Central and local government may have an interest in finding ways of helping home owners who are unlikely to be able to raise adequate money in the commercial market. To do so, the public sector would need to provide some kind of financial contribution. Such contributions would typically fall into three groups:

1 direct provision of all funds, in place of a commercial provider

2 provision of an element of subsidy, supplementing the limited provision by a commercial provider; or

3 some form of sharing of risk on finance provided wholly commercially.

Central government has assisted the development of some schemes. For example it:

- widened and simplified the scope for local authorities to collaborate flexibly with partners to help people buy or improve their home
- gave some grant support for equity release deals by local authorities to help people pay their contributions to the cost of residential care.

The Home Improvement Trust was set up as a specialist not-for-profit intermediary, operating nationally, to arrange loans and equity release products to finance home improvements. Many local authorities have joined HouseProud, which provides customers of home improvement agencies with access to private sector loans, arranged by the Home Improvement Trust. This service provides limited financial advice and the costs to the customer of setting up the loan are subsidised by the local authority. In the last three years, the Home Improvement Trust has arranged 720 mortgage loans for older people, with 49 per cent on an interest-only basis, 26 per cent with rolled-up interest and 25 per cent with regular payments of capital and interest.

The Government has encouraged local authorities and others to consider making loans in place of grants for home improvements, following the greater flexibility introduced by the Regulatory Reform Order in 2002.[1] A handful of local authorities and most HMR Pathfinders have responded by arranging non-commercial equity loan schemes on a limited scale, sometimes working with a Registered Social Landlord (RSL) (Cole and Flint, 2006, forthcoming). One or two community development finance institutions are planning to arrange non-commercial equity release deals (Wessex Reinvestment Trust, 2005; London Rebuilding Society, 2006).

These loan schemes are aimed particularly at those not well served by the commercial market and show much ingenuity and commitment in the face of many obstacles. But such schemes appear to be offering, at most, about £10 million of equity loan deals a year, compared with around £250 million a year grant funding, of which about half is currently for non-discretionary grants. Even the most optimistic views of their potential do not suggest that non-commercial loans are likely to grow to much more than £50 million in the next two or three years (DTZ Pieda Consulting, 2006, forthcoming), and only a very small percentage of these (if any) are likely to be equity release lifetime mortgages as defined in this report.

Most of the HMR Pathfinders are offering equity loans for relocation and some also to bridge the gap when the full cost of refurbishment is unaffordable. These equity loans tend to be interest-free secured loans, with the debt growing in line with the value of the property (Cole and Flint, 2006, forthcoming).

Implications for people on means-tested benefits

For older home owners entitled to means-tested benefits, equity release deals can be very unattractive, because they may lose substantial amounts of entitlement by entering into such a deal. Their net gain can thus be significantly less than the amount obtained from the equity release deal itself. The extent to which this might happen depends on the detail of the particular equity release deal, as well as the circumstances of the home owner. (The details of this are developed in Chapters 2 and 3.)

Means-tested benefits ('benefits') include Pension Credit, Council Tax Benefit and health benefits (dental treatment, spectacles and travel to hospital for treatment). Care at home, provided (or paid for) by local authority social services, is also usually subject to means-tested charges.

The potential effect on benefits is likely to be a consideration for at least one million older home owners. These are people with substantial housing wealth (more than £100,000) but incomes small enough to entitle them to benefits. If a threshold of £50,000 were used, the numbers would exceed two million (Sodha, 2005).

The potential significance of the link with benefit entitlement is reflected in the requirements placed on those advising prospective customers for equity release deals (ODPM, 2005; FSA, 2006a). Customers must have the likely consequences of the deal for benefit entitlement explained to them. To help advisers fulfil this requirement, the CML commissioned a computer program for financial advisers (FINTAL, offered by Ferret Information Systems Ltd), which calculates the effects on benefit entitlement. However, advising people who do not currently receive means-tested benefits, but might become entitled to them in the future, is particularly difficult.

There are some doubts whether this requirement to advise on the impact on benefits is always fulfilled well in practice (FSA, 2005a; FSA, 2006c). Most clients of intermediaries who advise commercially on equity release deals have income and capital that puts them well beyond the scope of benefits. So the advisers tend to be inexperienced in dealing with the complexities of benefits. A study for the Department for Work and Pensions (DWP) (Kempson and Collard, 2005) found that 'most financial intermediaries knew very little indeed' about Pension Credit (p. 38) and knowledge of Council Tax Benefit was 'even lower' (p. 41). Moreover, they may perceive clients reliant on benefits as less likely to seek further financial services from them. The DWP study found that knowledge in banks and building societies was better than among independent financial advisers (IFAs), and that knowledge among senior headquarters staff in companies was better than among those who advise clients (though the senior people's focus tended to be the heightened risk of mis-selling to people on benefits).

Advice, guidance and support

There has been a substantial degree of consumer protection since 2004 for most equity release deals and equity loans. Since then, financial advice on first charge mortgages has been regulated by the FSA, or by the Department for Communities and Local Government (DCLG) or the Housing Corporation for non-commercial mortgage lending by local authorities and RSLs (ODPM, 2005; FSA, 2006a).

Guidance and support on identifying and costing works to the home and paying for them is patchy (Mountain and Buri, 2005). In some areas, home improvement agencies offer help in identifying the works needed and reliable builders to carry them out. They supervise the works and ensure that they are completed satisfactorily. They can also offer information on financial options, but not advice. The Home Improvement Trust offers limited financial advice to clients of HouseProud. However, many older people have to deal with such matters without any help.

For people seeking additional care services, some local authorities provide sources of advice that may go beyond the community care services they themselves provide, thus helping people to arrange the additional care they want. The Government has recognised the need for such support in the Health White Paper (DH, 2006b). It committed itself to review the provision of both health and social care information to ensure that people have the information they need, when they need it, to help them find their way round the many separate services.

For people whose home is subject to major refurbishment as part of a housing renewal scheme, or is to be demolished, the local authority or HMR Pathfinder will try to help them to find a way to meet the costs and stay in the area. Housing and financial options for such people are often extremely limited, unless the public sector is offering an equity loan (Cole and Flint, 2006, forthcoming).

2 Identifying the obstacles to equity release for low-income home owners

This chapter identifies the obstacles to equity release deals for low-income home owners.

Equity release deals, on flexible terms and at prices only slightly higher than those for mainstream mortgage lending, are now readily available for most older home owners. 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 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. When equity release is the chosen funding option, it can prove a daunting process, involving professionals with whom they are not familiar. Help with the 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.

What is equity release and equity lending?

The substance of equity release transactions and equity loans is the exchange of some or all of the potential proceeds from the eventual sale of one's home in return for value (usually cash) now. For such an exchange to be commercially attractive to

a provider, their outlay now (what is paid to the home owner and the costs of the transaction) cannot exceed the present value of what the provider expects to receive under the deal in the future.

To estimate future receipts from equity release deals and equity loans, the provider has to make assumptions about:

- when the house is likely to be sold
- what its value will be then
- the provider's cost of funds (including profit) over the life of the deal, with the complication that the period cannot be known with any certainty. Actuarial estimates of the likely period are available (F&IoA, 2005), but, until the provider has a relatively large portfolio from a representative range of customers, they are less reliable as a basis for pricing.

In deciding at what rate to discount these expected future receipts, the provider will need to reflect the return that could be expected in the best-available alternative use of the funds.

Future returns are subject to uncertainty.

- For home reversions and equity loans, the return depends on the growth in the value of the property and the number of years before the property is sold.
- For lifetime mortgage loans with compound interest, the return is more certain, but the provider is still constrained by the no negative equity guarantee. This could result in a loss to the provider if compound interest increased the amount outstanding to more than the proceeds from the sale of the property.

The provider therefore faces a range of possible returns – both on a deal with a home owner and on alternatives – whose probability has to be judged in order to determine the target return needed. Each provider regularly reviews the terms offered by competitors to assess whether the terms of their equity release deals are still competitive. Other providers may assess the risk differently, which can result in different pricing for a similar product.

A home owner wishing to pursue an equity release deal must be given full financial advice about the relevant products available and their pricing. They must also be given advice on the tax and benefit implications, since these can make an equity release product unattractive. Often, the home owner discovers many of the attributes

and implications of an equity release deal only in the course of negotiating the transaction. A proper understanding of the deal is particularly important for older people, as it may be their last major financial transaction. By entering into an equity release deal now, they necessarily forego financial options they might otherwise have chosen to pursue later. When relatives learn of a proposed equity release deal, they may step in with financial help that makes the deal superfluous.

Equity release products are now readily available for most older home owners on flexible terms. The pricing of lifetime mortgages is only slightly more expensive than for mainstream mortgage lending. Reversion schemes are also competitively priced and offer a degree of certainty about what will be left for an inheritance. For low-income home owners requiring works to their home, or additional care in the home, there is seldom anyone signposting them to equity release. Local authority and home improvement agency staff are often not up to date with what is on offer commercially.

Why isn't equity release and equity lending available to all home owners?

The constraints on the availability and pricing of commercial equity release schemes and equity lending to home owners fall into three groups:

1. the provider's inability to obtain a sufficiently large return (even if the risk is average)
2. the provider's perception that the return has a relatively large margin of (adverse) risk that cannot readily be hedged
3. the provider's need to recoup relatively large transaction costs.

Insufficient return for the provider

Equity release schemes typically involve a payment to the home owner now, or in tranches that can be of differing sizes over a number of years, or as a regular monthly payment. There can be a very long interval before the provider receives any return (typically when the property is sold because the home owner has died or has moved permanently into residential care).

The main component of the return the provider requires is determined by their cost of funds. The majority of the funds will typically be raised in the market on a variable rate of interest, as fixed-rate funding requires the period to be known in advance, or taken from insurance contributions in place of alternative investment. The cost will be compounded at intervals between monthly and yearly until the property is sold. Since the home owner is making no payment, and the provider cannot gain access to the value of the property so long as the home owner remains in occupation, their longevity (or interval before going into a care home permanently) determines the period of funding, and hence has an impact on the return the provider needs if they are to cover the cost of funds.

If the provider were confident that, by the time the home owner died or went into care permanently, the value of the property would have grown sufficiently to match the required return, it would be feasible, in principle, to pay the home owner a relatively large proportion of the value of their home now, and to do so for home owners of any age. In practice, all commercial providers require a return that is significantly greater than their expectations of the growth in house prices. This is the reason underlying their restriction on the proportion of a home's value that they are prepared to pay the home owner now, and the unavailability of equity release deals for home owners who have a life expectancy of more than about 20–25 years. This constraint would almost certainly apply also to equity loans, were they to be offered commercially, unless compensated for with an interest rate.

To decide the terms on which equity release deals can be offered viably, the provider has to work backwards from their expectations of the value of the property at the end of the equity release deal, given the life expectancy of the home owner, their view of interest rates over the period and the profit margin required.

Assuming the equity release deal has a no negative equity guarantee, which is now virtually standard, the sale proceeds, when the property is eventually sold, determine the maximum amount the provider can receive. So the provider has to determine how much to offer the home owner now, not being able to anticipate with any precision the longevity of the client or the cost of funds, both of which will have a direct influence on the provider's return. Their answer is to offer a diminishing share of the value of the property now. The share diminishes:

- progressively, the longer the home owner is expected to live
- more rapidly, the further the provider's expectations about the rate of growth in house prices is less than their estimate of compound interest costs plus profit margin.

The practical consequences, given the returns currently sought by providers and their (implicit) expectations about house price growth, are that equity release deals are likely to continue to limit the proportion of the current value of the property that is offered to the home owner now on broadly the following lines, bearing in mind that the relevant age is usually that of the youngest occupier of the property who has a right to continued occupation for life:

- 20 per cent of the value where the home owner is aged 60
- increasing by one percentage point for each year that the age is above 60 and
- an upper limit of 45 per cent at age 85 or 50 per cent at age 90.

An implication of this is that equity release deals in their current form, and equity loans without interest payments, would not be commercially viable where the home owner is younger than about 60.

In areas of housing market renewal, significant numbers of home owners are well below retirement age. For such people, private sector equity loans without interest payments are very unlikely to become available, unless there is some form of public sector support. This is confirmed by shared ownership RSLs requiring a rent on the portion of the property that they own.

However, if the home owner is below retirement age, they may be earning sufficient to contribute regular payments for some years. In principle, if these regular payments were sufficient to cover the provider's cost of funds plus profit margin (i.e. similar to an interest-only mortgage), and the loan was for no more than 25 per cent of the value of the property, the arrangement could convert into an equity release deal on retirement at 65. No one is currently offering such a deal.

Margin of risk

The previous paragraphs explained the relevance in equity release deals of the provider's expectations of the growth in house prices. The relevant expectation in an equity release/equity loan deal is the growth in the value of the particular property that is given as security for the deal.

Such expectations cannot be crystallised with any precision. The best that providers can hope to do is to take a view of the attributes of a property that they judge are likely to be associated with relatively strong, or weak, growth in values. Such

attributes are likely to relate to the area, the type of property and the likely cost of maintenance and any service charges.

Equity release deals and equity loans are unlikely to be concluded at all in those cases where the attributes would preclude mainstream mortgage lending for home purchase. Such properties include high-rise flats, properties of non-traditional construction and properties in areas of low demand.

But equity release providers are necessarily more sensitive to the potential for growth in value than providers of conventional mortgage loans for house purchase. For a loan for house purchase, the debt does not increase over time because the borrower is paying at least the interest. In contrast, on an equity release deal, the debt (or reversion company's cost of funds) grows continuously, as interest is compounded. The properties of concern to equity release providers include sheltered housing schemes and leasehold properties, because of the dampening effect there can be on their value when service charges increase.

Some other properties will have attributes that equity release providers may have reservations about, such as properties within large social housing estates. Providers may also be unwilling to engage in equity release deals or equity loans that result in them having a concentration of customers in a limited area, as this reduces the extent to which they are able to spread their risks.

Transaction costs

The transaction costs for an equity release provider comprise the costs of:

- obtaining customers and handling enquiries, some of which may be done by an intermediary who has to be reimbursed
- fulfilling regulatory requirements protecting customers
- professional work by lawyers and valuers.

The cost of obtaining customers is a normal expense of any business. In most equity release deals, the provider pays an intermediary, usually an IFA, a fee for each completed deal. This is often a higher fee than for products sold to working households because of:

- the regulatory regime
- the time taken to deal with older customers
- the relatively large proportion of enquiries pursued in some depth that do not go ahead.

The cost to the provider of fulfilling regulatory requirements (ODPM, 2005; FSA, 2006a) is largely an overhead cost of:

- ensuring appropriate procedures
- investing in appropriate software
- training staff in the requirements
- keeping their training up to date
- ensuring that they apply their training diligently.

There is a similar overhead cost for IFAs, as well as more time being needed with the client than is necessary for most other products. When a specialist intermediary is involved, they have comparable costs to an IFA and may charge the home owner directly.

These costs appear to be an inhibition, at least for smaller IFAs. This is because they are largely fixed costs and they can expect to spread them over only a relatively small number of concluded deals.

Part of the regulatory requirements is to ensure that the customer considers the possible consequences of an equity release deal for their entitlement to social security and other benefits. For some, there would be such a substantial loss of benefits that the customer would get little or no advantage financially from equity release. CML commissioned Ferret Information Systems Ltd to develop software (called FINTAL) to assist IFAs to determine the tax and benefit implications of an equity release deal. But those selling equity release deals have difficulty in fulfilling this requirement satisfactorily, despite this helpful software being available. This is partly because benefits are a complex subject, often changing, which they seldom if ever need to draw on in handling other financial transactions, and some IFAs say the software is too expensive. This has led the Institute for Public Policy Research (ippr) to conclude that the Government should make available a free online benefits

calculator for pensioners, so that they are able to determine the effects of increasing their income, or capital, on their benefit eligibility (Maxwell and Sodha, 2006).

Providers seek to recover these costs – regulatory requirements and the success fee paid to the intermediary – partly through charges to customers as an arrangement fee (some of which might be met out of the provider's payment now) and partly through charging a margin on the return sought.

The cost of professional work by lawyers is a further element that providers would seek to recover from the client, either as part of an arrangement fee or included in the return they seek on the deal.

The cost of an independent valuation is typically charged up front to the customer and is not refundable if the deal does not go ahead. Whereas the other charges to the customer can usually be met from the proceeds of the equity release deal, the fee for the valuation is normally expected in advance of the deal proceeding.

The customer can benefit from a draw-down equity release facility if they expect that they may require further cash in the future. The total arrangement fees and charges will not be much more than for a single lump sum deal. But the delay in drawing some of the cash will mean that later drawings will be better value for money and, because the person is older, they can then draw a larger proportion of the value of their property (whose value may have increased meanwhile); if they have a lifetime mortgage, they will have saved some interest charges; if they have a home reversion, they will have to give up a smaller proportion of the value of the property.

Some providers might require an IFA to be involved before each draw-down. This could be beneficial to the home owner if it revealed that another product or a more competitive deal could be obtained. It might also be prudent if the home owner's circumstances had changed so as to bring them within the ambit of entitlement to benefits, since a further draw-down might not be financially beneficial. But the provision of further advice involves cost in considering a fresh drawing.

Although there are virtually no equity loans offered commercially at present, it seems likely that the issues relating to transaction costs would be largely the same. As with a home reversion scheme, the valuation would be critical, as the final repayment of an equity loan is derived from the initial valuation.

Why is equity release unattractive to some home owners?

Equity release is not the best way for every home owner to raise money from the value of their home. For home owners in properties of at least average value, there may often be a realistic alternative of 'trading down' – selling a larger home, or one in an expensive area, to move to a smaller home, or one in a less-expensive area (Maxwell and Sodha, 2006). This may well be the reason why *Which?* recommended this approach as much preferable to equity release (*Which?*, 2006a).

But, for home owners in lower-value properties, the scope for trading down is likely to be much less. If the home owner in a lower-value property wished to stay within the same area, the narrow differences between the prices of homes of differing sizes would enable them to release little equity, especially after meeting the substantial costs of moving home (Maxwell and Sodha, 2006). This, coupled with the strong preference of many to remain in their present home rather than move, means that equity release is their only realistic option.

The limited use of equity release cannot be attributed to ignorance. A JRF report (Rowlingson and McKay, 2005) recorded a high level of public awareness (78 per cent) that it is possible to conclude an equity release deal. It also indicated that many of these people would not rule out such a deal, in principle. It found there may be growing acceptance that it is reasonable for older people to use the value of their home to enable them to live more comfortably, since two-thirds thought that older people should not forego comforts in order to leave more for inheritance.

But far fewer people pursue equity release. From discussions with those advising older home owners, in both commercial and non-commercial fields, the inhibitions appear to fall into the three groups:

1. those that are general to any form of financing

2. those concerned with debt

3. those specific to financing by equity release.

Those inhibitions *general to any form of financing* include:

- practicalities of spending the money on works to the home or on care in the home: concern about physical disruption and unreliable builders or possible problems with organising care

- attitudes to spending and inheritance: reluctance to spend their own money (as compared with spending government grants) or reluctance to reduce the inheritance they can pass on.

Those inhibitions *concerned with debt* include:

- reluctance to incur debt of any kind

- especial reluctance to take on housing debt, feeling that they have spent a lifetime paying off a mortgage loan so as to be housed, debt-free, in their retirement (Rowlingson and McKay, 2005).

Those inhibitions *specific to financing by equity release* include:

- risk: lack of trust in the product; lack of trust in the provider and/or the intermediary; concern at the possibility of owing more than the house is worth; and anxiety that they could be turned out of their home

- value for money: suspicion that equity release is not good value for money; and reluctance (and sometimes fear of the inability) to meet up-front charges

- a formidable process: reluctance to embark on an unfamiliar and formidable-looking process, especially in the absence of trusted support.

To these must be added the decisive obstacle, for those receiving benefits, that they may suffer a substantial reduction in their entitlement to benefits. This may leave them little, if any, better off after giving up equity in their home.

Some of the views on equity release are thought by those in the field still to be overshadowed by the continuing problems experienced by some who took out such deals in the 1980s, before the present measures of consumer protection existed. Some may be influenced by assessments and comment on equity release by national organisations whose views are trusted, such as the Consumers' Association, Age Concern (which lends its name to a lifetime mortgage product from Northern Rock) and Help the Aged. Such comment usually (rightly) stresses the significance of the transaction and the importance of a thorough consideration of the implications and the taking of good independent advice.

The Consumers' Association is very influential on issues of personal finance through *Which?* magazine. Its recent assessment of the equity release market (*Which?*, 2006a) was extremely negative, describing the products as last resort and recommending trading down as preferable. But, as mentioned earlier, trading down

is unlikely to release much equity for a home owner living at the less expensive end of the market, unless they can move away to an area with much lower house prices. The *Which?* report said that 'if you need money for essential property repairs or home improvements, you may be eligible for a grant or loan from your local authority', without acknowledging that equity release might be appropriate for an older person on a low income wanting to do non-essential works to their home or pay for additional care services.

Equity release deals can appear to be relatively expensive for what they offer.

- For lifetime mortgages, the effect of interest being compounded over the life of the loan can be striking. For example, at 7 per cent per annum interest, compounded quarterly, the balance doubles over ten years and the increased balance would itself double over the next ten years. However, the value of the property is likely to rise during the life of the loan, offsetting some of this cost.

- For a home reversion, the need for discounting the amount advanced to reflect the absence of any rent to the provider can also be striking. For example, a 65 year old is likely to have to give up the whole of the eventual sale proceeds of the property, in return for only 25 per cent of its value now.

The apparently poor value for money seems to deter some potential customers, notwithstanding that the typical return sought by providers (at least at the less expensive end of the range of products) is readily explicable as justified by their costs and risk (Equity Release Working Party, 2005).

However, there can still be a beneficial outcome for some of those whose initial enquiries are taken no further. Intermediaries find that, once the family is involved (as is often recommended practice), it is not unusual for them to muster financial assistance that makes equity release unnecessary. And consultation with an IFA can reveal that a person is not claiming all the benefits to which they are entitled.

Older people who approach a home improvement agency may find the staff reluctant to talk about equity release, particularly if the local authority sometimes gives grants or cheap loans for home improvement work. There needs to be greater acknowledgement that public sector resources are more limited now and that a delay in works may lead to significantly higher costs later (Leather, 2000).

Home owners who are entitled to benefits (or likely to become so) will often be advised strongly not to enter into an equity release deal. This can be sound advice, particularly in relation to deals that would provide a regular supplement to income, whether through the purchase of an annuity or otherwise. An increased income

would often lead to reduction or loss of benefits, thus yielding little or no gain from equity release, despite giving up part of the value of the home.

But the advice against equity release deals for people entitled to benefits may be more sweeping than is justified. Pension Credit can in some cases meet typical interest costs of an interest-only mortgage taken out to pay for essential works to the home. Some equity release deals that yield a one-off lump sum do not adversely affect benefit entitlement, or have an adverse effect only in certain limited circumstances. The obstacle here is the complexity of the benefits system, which, coupled with the regulatory framework for advisers, can make IFAs overly cautious when advising low-income older people about equity release.

Why aren't equity release deals offered by many mainstream financial institutions?

There is no indication that the scale on which commercial equity release deals are currently offered is constrained by the difficulty of financing them (unlike equity loans, as discussed below). However, a number of high street lenders who would be looking for very large volumes are not yet in the equity release market. A few names familiar for other services or business with older people sometimes provide the initial contact for an equity release deal; these include Age Concern, Help the Aged and Saga.

It appears that some mainstream institutions are reticent because of concern about tarnishing their reputation. Although they can seek to ensure their own role is beyond reproach, they are worried about the possibility of repercussions from factors beyond their control. Two factors are mentioned:

1. possible mis-selling of their product by IFAs, because of their limited familiarity with the products and insufficient understanding of the links with tax and benefit entitlements

2. adverse publicity arising from reprehensible behaviour by less responsible providers or specialist intermediaries of products that the press perceives as similar.

The reservations of institutions with a wide range of products and interests, of which equity release would be only a small part, have concern that adverse publicity on an equity release product could have repercussions for the profitability of their other products, even though unrelated.

Two developments may provide some reassurance.

1 In their second 'mystery shopper' test in 2006 (FSA, 2006c), the FSA found improvements in performance compared with its original test in 2005 (FSA, 2005a). But the improvments were concentrated among those for whom lifetime mortgages were a significant part of their business. Among those that advise on equity release only infrequently, there continued to be instances of unsatisfactory systems and controls, knowledge and skills.

2 In 2007, regulation of the sales process for home reversion schemes by the FSA will be introduced, thus ensuring that both the main forms of equity release deal are covered.

But these will not necessarily suffice. For example, before FSA regulation of the sales process for lifetime mortgages in 2004, some expected that the introduction of regulation would be followed by a large growth in the market, whereas equity release business fell back a little in 2005 to a similar level to 2003 (CML, 2006a; SHIP, 2006a).

Why aren't equity loans offered commercially at present?

In the past, one or two mortgage lenders have offered equity loans on a pilot basis. None of these was developed into a mainstream product. The principal reason these pilots ended, and equity lending has not taken off, is the lenders' difficulties in financing them or hedging their risks. For a substantial programme, they need to be able to raise finance on terms that match those of the equity loans. But there has so far proved to be only a very limited market for investments linked to movements in house prices.

Nevertheless, in the recent past, there has been interest among mortgage lenders in developing a commercial equity loan market. This would attract pension fund and life insurance company investment by securitising portfolios of equity loans. To get this started, CML was proposing a joint venture financed by mortgage lenders and Government (CML, 2004). The Government responded by requiring individual lenders to make equity loans initially, to test the scope of the product. Three lenders are currently in discussions with DCLG and the FSA about equity loans for the New Build HomeBuy scheme targeted at first-time buyers, alongside a conventional mortgage from the same lender, from October 2006 (CML, 2006b).

3 Identifying solutions for low-income home owners

This chapter suggests ways in which more low-income home owners might be helped to pay for repairs and improvements to their home, or to buy additional care at home.

Much more individual guidance and support is needed to increase confidence in achieving a successful outcome for older home owners. The role that is needed can be likened to that of a knowledgeable, trusted friend.

The commercial market provides equity release deals for most circumstances, but those living in some properties are excluded. Local authorities might overcome these exclusions if they were to share the risk with a commercial provider. The high charges for setting up an equity release deal may require a public sector contribution to the costs.

There may be merit in local authorities offering equity release deals themselves. The most cost-effective way would be through a funding company sponsored by local government, with funding 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, funded by that authority.

For older homeowners entitled to benefits, it can be financially hazardous to draw on the equity in their home. The Government should reconsider the interaction between the entitlement to benefits and self-help by drawing on equity for works or care. If a modest amount of equity is released each year, it should not affect benefit entitlement. The cost to the Exchequer would be minimal, as there would be very little ‘deadweight’.

In housing renewal areas, some older home owners could be helped in similar ways, but younger home owners would need help from the public sector. The public sector would have to bridge the gap between the funds the home owners need and the maximum borrowing or equity release they could arrange.

There are three main aspects to enabling more low-income older home owners to buy repairs and improvements to their homes, or additional care:

1. increasing their confidence that they will achieve a successful outcome (both practically and financially)

2. increasing the availability of appropriate and trusted finance that they can be offered

3. reconsidering the incentives and disincentives presented by means-tested benefits.

There are particular considerations for those affected by major refurbishment as part of a housing renewal scheme or by demolition; these are examined separately towards the end of this chapter.

Increasing confidence in a successful outcome

Increasing confidence in a successful outcome seems to require greater assurance on some or all of the following:

- that the *practicalities* (of works to the home or securing additional care) can be handled successfully, without excessive anxiety or disruption

- that the *advantages of timely action* should not be underestimated

- that the *risk* perceived in an unfamiliar financial deal is minimal

- that the financial deal is reasonable *value for money*.

Those working with older people feel clear that impersonal approaches, such as publicity and written material, have only a very limited effect in providing reassurance. The concerns of older home owners are likely to arise as much from perceptions about an unfamiliar field as from objective realities. So they need reassurance individually. It seems likely that trust and rapport would have to be built up between the older person and whoever was providing reassurance, if the reassurance was to affect decisions.

As meeting advisers and filling in forms can seem daunting to many people, a personal service would also be necessary to support the person as they went through the process. This would ensure that all the relevant components were brought together in an effective way, as well as helping the person to get necessary expert advice, understand it, fill in forms and the like.

This leads to the view that overcoming the obstacles to increasing confidence in a successful outcome would require a service of practical assistance and reassurance to be offered. To increase significantly the number of people able to improve their quality of life in this way, such a service would have to be proactive.

The need for such a role in relation both to *home improvements* and to *care at home* can be discerned. This leads on to proposals for ways of providing *greater assurance*.

For home improvements

The perceived difficulties – both practical and financial – in carrying out home maintenance and improvement can lead many older home owners to put off action until the property is in a state of disrepair. This means that they may needlessly spend several years living in deteriorating conditions and then have to pay for far more expensive works than if action had been taken earlier. There is thus a need to offer older home owners the prospect that keeping their home well maintained and carrying out necessary improvements can be less daunting than they supposed.

Existing publicly financed services of guidance and support relating to repairs and improvements tend to be limited and concentrated on vulnerable households. A number of those in the field have commented that many home improvement agency staff remain strongly attached to grant-financing of works, feeling less comfortable talking to people about financing from loans. They also tend to be reactive to those who make their way to them, rather than strongly promoting the scope for older people to keep their home in good condition, and thus encouraging them to take action. These limitations probably reflect the limited capacity, of both people and money, available to them.

Existing services (both in the independent sector and the public sector) also tend to focus on particular aspects of the process, rather than offering comprehensive guidance and support. This probably reflects the difficulty of orchestrating a service requiring as diverse expertise as the physical requirements of property maintenance, identifying reliable contractors, the management of works, benefit entitlement and

financial products. Nevertheless, services such as those provided by Bristol Care & Repair and Anchor Staying Put (Mountain and Buri, 2005) do seek to offer a more comprehensive service than many.

For care at home

The emphasis of the Government's policy is on helping people to keep control of their own lives for as long as possible. The information points that the Government intends to establish (DH, 2006b) will no doubt focus on ways of supporting this aim. So they will probably want to help people who wish to get extra services that help them stay longer in their own home. It will be important that they recognise that the support needed is likely to extend to the financial, rather than only the practical, aspects of obtaining the services wanted. However, if the person has taken an equity release deal earlier to supplement income or to pay for works to the home, there may not be sufficient equity left when funding is needed to pay for additional care in the home.

Providing greater assurance

Overcoming these limitations will require a significantly increased service of guidance and support to older home owners. The cost of such a service will probably have to fall very largely on the public sector, although charging on a cost-plus basis could well be appropriate for home owners who are not on state benefits. However, if the aim is to encourage more older home owners to pursue repairs and improvement, and to use additional care to enable them to remain longer in their home, charging for the service could prove to be counter-productive.

A feasible solution might be to draw a distinction between charging for guidance and charging for support. The former might be provided free of charge; the latter could be charged to the home owner, at least in those cases that become a concluded deal. In such cases, the cost could be added to the amount raised. Where only a small equity release deal was needed (less than about £3,000–5,000), it seems more likely that the whole cost of guidance and support would have to be borne largely by the local authority or by a Local Strategic Partnership. By helping people to remain at home for longer, this expenditure can be seen as contributing to the objectives of consumer choice and prevention that are at the heart of the Department of Health's White Paper, *Our Health, our Care, our Say* (DH, 2006b).

There would need to be two main elements to an enhanced service of guidance and support to older home owners on their housing and care options.

1 *Guidance* (including promotional work): there is a need for disinterested, but comprehensive, guidance on their options, including that of moving home and the issues that the person would need to consider if they pursued the matter; but it would avoid any advice relating to specific products.

2 *Support:* this would provide an adviser (a 'trusted friend') to support the individual home owner through all the steps of the process once they had decided, in principle, to pursue works or care packages not funded by the local authority.

Guidance (including promotional work)

The guidance element could conduct proactive promotion among older home owners of the possibility of support in keeping their home in good condition and obtaining care beyond that paid for by the local authority. Promotion might be concentrated on specific areas or kinds of property at particular times. But the aim would be to reach also into the lower–middle market, to reduce the risk that the homes of older home owners will be left to fall into disrepair and require much more costly works later.

The guidance would focus on ways of achieving what the person wanted, rather than on particular processes or solutions. For some, moving home may be more advantageous than being helped to maintain their present home. The promising ways of paying for any works or for care are likely to differ among clients, reflecting their differing circumstances and what support the public sector could offer. But the guidance would be confined to generic examples, rather than particular products. This would fit well with the wish of the FSA to foster the development of a voluntary system of generic financial advice, outside their regulation regime but complementary to it (FSA, 2005b), as a contribution to the National Strategy for Financial Capability.

For some, guidance provided by phone may be sufficient. But others may want face-to-face guidance, and this would need to be obtainable reasonably locally, especially for less-mobile, older home owners. The guidance would need to be focused on housing options, home adaptations and improvements, as well as housing support services and care in the home. By providing information and guidance on continuing care at home – including arrangements for obtaining such care, which could encompass such things as cleaning, shopping and gardening – this would then address a problem identified in the Social Exclusion Unit's report *A Sure Start to*

Later Life (Social Exclusion Unit, 2006) – lack of joining up in the range of services that provide support for older people to remain in their own homes.

This guidance service would need to be dovetailed with information on financial options, including benefits, grants (including Disabled Facilities Grant) and equity release for older people. The nearest examples to this currently in operation are the housing advisory services provided by Bristol Care & Repair and by Anchor Staying Put. Their services are described in detail in a report for Care & Repair England (Mountain and Buri, 2005). This report gives an indication of how time-consuming, and hence expensive, the sort of guidance service proposed here could be.

It is recommended that further work be carried out on this with a group of local authorities, possibly in conjunction with someone involved in the Sure Start to Later Life project and someone from the Shall I Stay or Shall I Go? programme. This further work would consider how to organise such guidance, what it might cost and possible sources of funding. The local authorities that are currently piloting Sure Start for older people, with funding from the DWP budget for the LinkAge Plus programme in 2005/06 and 2006/07, might be prepared to share their experiences. This work could possibly build on that recently undertaken by the Resolution Foundation, which is developing proposals for a national financial advice network (Resolution Foundation, 2006).

In considering this guidance role, it appears that better information and advice is needed in many parts of the country about the care services that could be arranged, what they would cost and how they might be paid for. It is recommended that a review of good practice on providing information and advice on care services, to enable older people to remain longer in their own homes, is undertaken and disseminated to local authorities.

The guidance service would also explain the support element that could be provided if the home owner wished to pursue the matter further.

Support

The support element would offer the home owner a ‘trusted friend’ who could give them an individual support service and act as their advocate. Some would not need this, but, for those who had no relative or friend able to fulfil a similar role, it could be decisive in giving them the confidence to pursue what would otherwise be too daunting a task at their age. The trusted friend would be available to sit in on all

interviews, discuss the situation at all stages with their client, and help them make appointments and fill in forms.

The first role of the trusted friend would be to increase the client's confidence by understanding what the client wanted to achieve. This could help an older person to make their own assessment of their needs.

The second role would be to provide well-informed, but disinterested, commentary on what the client was then told about:

- the housing options and works that the person might benefit from, or the additional care packages and their likely cost

- the possible ways of meeting the costs and the wider financial implications (such as local authority funding, grants, the effect on benefit entitlement of loans or equity release and the potential impact on legacies).

If the person wished to take it further, the trusted friend would assist them to get professional advice from appropriately qualified advisers, and would be at hand at all stages to assist and ensure proper understanding of all the issues. They could help with application forms for benefits, grants and suitable financial products.

Once the person had chosen their contractor and financial product, the trusted friend could assist in obtaining independent legal advice on the chosen financial product. They would be available to support the client throughout the legal process.

The trusted friend would need some knowledge on all the aspects on which they were supporting, if only to be able to interpret what a specialist expert (e.g. on building works, on care in the home or residential care, or on finance) was telling the home owner. But they would usually need to support the home owner when they obtained the expert advice (and, in the case of the financial advice, it would have to be given by someone who complied with the regulatory requirements of the FSA).

It is recommended that a feasibility study be undertaken to identify the costs, benefits and practicalities of such a service being made widely available for older people. All possible funding sources would need to be explored.

Increasing the availability of appropriate and trusted finance

The guidance and support services described above should help to reassure people that they are contemplating a financial deal that is reasonable value for money and does not expose them to undue risks. But some local authorities may wish to go further, taking action that could provide more confidence in the financial deal. They could also take steps to enable a wider range of people to draw on the equity in their home, which could be particularly helpful to those in former council housing.

The absence of some of the major high street lenders from the equity release market contributes to the reported lack of confidence in equity release products and their providers. Drawing in these providers is likely to depend on two developments: more comprehensive protection of customers of equity release schemes (which should be helped when FSA regulation of sales of lifetime mortgages is extended to home reversions, expected to be in spring 2007); and considerable growth in the market beyond the current £1 billion a year. In January 2005, the Institute of Actuaries projected sustainable sales of equity release products of £2 billion a year by 2010, rising to £4 billion a year by 2031 (Equity Release Working Party, 2005). In an article for CML in February 2005 (Hosty, 2005), it was suggested that, if the biggest high street names were to join the market, a dramatic growth in equity release sales over the next few years could be expected, perhaps to £5 billion a year of new business.

This indicates a 'chicken-and-egg' problem. The high street providers of personal finance are likely to remain reluctant to come in until the equity release market is much larger; but the commercial equity release market is unlikely to get much larger until those providers come in.

This market problem suggests a role for the public sector as a catalyst. Older home owners would probably trust deals set up by local government at least as much as ones offered by high street providers. But local government generally feels ill-equipped to fulfil such a role (Groves and Sankey, 2005). They usually have only very small numbers of staff dealing with private housing. These staff would rarely have any expertise in financial products. Some in the field say they often find that staff hanker for the return of grants and are reluctant to steer people towards loans and equity release. Authorities are also likely to be concerned about the potential demands on their limited finances if they were to provide and administer equity release deals themselves.

Local government is more engaged in arranging finance for private housing in the HMR Pathfinders. The Pathfinders have been pioneers in making arrangements for

equity loans (rather than equity release deals) to home owners requiring finance to close the gap between what they could afford through conventional lending and what they needed to spend on renovation work or a replacement home. The Pathfinders have had the advantage of a budget to provide the equity loans and the related administration. In contrast to equity release, equity loans are not available commercially at present, so a public sector lending solution has been necessary for home owners below retirement age in the Pathfinder areas.

The difficulties for local government appear surmountable in two ways, which are considered below:

1 *assisting people to conclude equity release deals with commercial providers* by providing a limited financial contribution towards the cost of setting up a deal and/ or some sharing of risk in relation to properties on which the commercial market is reluctant to do deals

2 *concluding equity release deals themselves*, probably through a company sponsored by local government acting for all interested authorities and preferably on terms that provided the prospect of being funded from the outset with private finance.

Both offer ways in which more could be achieved for any given amount of spending by the public sector.

Assisting people to conclude deals with commercial providers

Although the commercial market now offers ways of releasing equity to a much wider range of home owners than in the past, there remain some limitations that seem very difficult to overcome commercially. Since these relate to groups that public policy may wish to help, there is a case for using public funds in those situations, if that can be done for a relatively modest outlay.

The two main limitations are:

1 *deals for relatively small sums*, where the limitation arises because the cost of setting up such a deal would be a large supplement to the amount of the deal

2 *deals relating to less attractive properties* – those on which a commercial provider considers a deal too risky because the prospects for adequate growth in value in the property appear insufficient to yield the return they seek.

A deal for a relatively small sum could be exactly what is needed by many low-income, older home owners for whom relatively modest repairs or improvements, or care packages, could improve their quality of life considerably. Deals relating to less attractive properties seem likely to be of increasing relevance, as those who bought their council houses or flats in middle age retire and get older. Some will have difficulty paying for the renovations that are likely to be needed as the property also gets older.

Deals for relatively small sums

Commercial providers confirm that their reluctance to conclude deals relating to relatively small amounts arises because the cost of setting up such a deal would be large relative to the amount to be raised. Customers are most unlikely to go ahead when setting-up costs are high (and, if they did, the providers would probably be condemned for such large charges).

Discussion with equity release providers confirms that there are substantial costs in setting up deals to release equity in a home and that these are broadly similar over a fairly wide range of property values. These costs can be considered in two groups.

1. Professional fees: fees for valuations and legal advice, which would typically amount to around £600–800.

2. Advisory and arrangement fees: contributions to the costs of providers and specialist and general intermediaries of being in the business of offering equity release deals, comprising their fixed costs (of which the training of staff in accordance with FSA regulations is a major element) and the time spent on handling potential deals (which can be substantial, given the relatively large proportion of enquiries that do not develop into concluded deals and the greater time needed to deal with older people). Contributions sought from a new customer tend to be in the range of £500–1,000.

Such costs are largely inescapable for prudent secured lending with adequate consumer protection. Apart from the profit element, similar costs would arise even if a local authority itself were the provider (though, if it carried out some of the functions through its own staff, those costs might often not be identified). Some of the costs could be escaped by making unsecured loans, but there does not appear to be any commercial source that would roll up interest over an indefinite loan period, as a lifetime mortgage would.

Local authorities could support older home owners who need relatively small sums by:

- meeting, or contributing to, the costs of setting up a commercial equity release deal; or
- making unsecured loans themselves (with rolled-up interest) and meeting the cost of the advice that it would be important to ensure was provided to the borrower.

Contributions to the setting-up costs might be related to the amount the home owner was raising. For example, the authority might agree to meet the balance if the home owner paid 10 per cent, say, of the amount to be raised, the majority of which could be added to that amount. Authorities might have scope for negotiating with providers and specialist intermediaries a reduction in setting-up charges, in situations where the authority provided the service of guidance and support described above. These services would be an additional cost to the local authority, requiring an increase in staff resources, as most local authorities have very few staff engaged on work on private housing (Groves and Sankey, 2005). But it should reduce the amount of time the commercial organisations would need to spend on discussion and considerably curtail the time spent on enquiries that did not materialise into concluded deals, thus enabling them to reduce their set-up charges for these customers.

Some authorities may judge it better value for money to provide unsecured loans for small sums themselves, rather than contribute to the setting-up costs of others. If the costs of providing advice, and losses from bad debts, were relatively small, the eventual cost to a local authority of their unsecured lending of amounts up to £5,000, say, could be less than the outlays it would otherwise make towards the set-up costs of commercial equity release deals. A number of authorities currently arrange unsecured loans for small sums, sometimes placing their administration with an RSL. But they tend to require monthly repayments rather than allowing interest to be rolled up. As such, it would still be important for a low-income home owner to take advice on the implications for entitlement to benefits, even if the loan were unsecured. Indeed, even if it were not a requirement, prudent risk management would lead the lender to want the borrower to receive independent advice to protect the lender against subsequent challenge for mis-selling if the borrower were to lose benefits after borrowing the money. If advice is needed, for whatever reason, it will give rise to costs.

In relation to contributions to the setting-up costs of commercial equity release deals, it is recommended that representatives of local government and equity release providers agree:

- the categories of costs to which contributions might be required and their order of magnitude
- a model framework agreement between a local authority and a provider for such contributions to costs.

Deals relating to less attractive properties

The range of properties on which equity release is available is now wide (though not quite as wide as for conventional mortgage lending). For people living in former council housing, in flats, or in other properties with service charges, equity release deals may not be available because the provider is concerned that the property may not grow sufficiently in value. This is a legitimate risk for a local authority to assess and take, where they consider the risk to be modest. In such cases, where the authority would like to see the home owner conclude a deal, they could offer the commercial provider an indemnity through which the risk would be shared. For example, the provider would take the risk of the movement in house prices regionally (or more locally if reliable data were available regularly) over the life of the deal. The local authority would bear the risk of the growth in value of the particular property falling short of the growth in values regionally (or locally) when the property was sold. If the provider received less than if the property's value had kept up with the regional (or local) growth in values, the authority would pay the provider the shortfall.

The Regulatory Reform Order[1] makes it easier for local authorities to provide indemnities for financial arrangements connected with buying, repairing, improving and adapting people's homes. Indemnities in connection with financial arrangements connected with care at home appear to be possible under local authorities' broad powers to promote well-being,[2] and perhaps also under more specific social services legislation.[3] Hitherto, local authorities have had reservations about giving indemnities for mortgage loans; one reason has been the difficulty of making a reasonable assessment of their contingent liability, given the lack of evidence on which it could be based. With an indemnity for the value of a property on a council (or ex-council) estate, the authority could regularly reassess the potential liability with some accuracy. And the risk to the authority is likely to be very small if the equity release deal was for much less than the maximum the provider would have been willing to offer without an indemnity, on a comparable property.

It is recommended that representatives of local government and equity release providers agree:

- a form of words for a standard local authority indemnity, which would require the local authority to reimburse the commercial provider when the property was sold, where the provider could demonstrate a loss on the deal because the price for which the property was sold fell short of the price it would have sold for if its value had grown in line with values regionally (or more locally, if reliable data were regularly available)

- a procedure for an equity release applicant, living in a property rejected by a commercial equity release provider, to apply to their local authority for one of these standard local authority indemnities in favour of the provider (the authority would determine its policy on the categories of client/property on which it would give such an indemnity).

They might also consider what more would be required if the authority wished the indemnity to be accompanied by a right for the authority (or its nominated RSL) to have first refusal to purchase the indemnified property at open-market value when it was eventually sold by the owners (or their executors), or the home reversion provider.

It would be necessary to consider the implications of EC State Aid rules (EC, 1997) for the terms of such an indemnity. If it fell within the definition of State Aid, it would be necessary to notify the EC and obtain their determination that the indemnities were compatible with the EC Treaty. The UK has obtained clearance for a class of cases (‘services of general economic interest’) (EC, 2005) and might need to seek similar clearance for the proposed indemnities.

Local authorities concluding deals themselves

In view of the reported extensive lack of trust in commercial providers of equity release deals, local authorities might wish to be providers themselves if they find that the reassurances of the trusted friend are insufficient for many eligible clients to proceed with a commercial solution. A few local authorities play such a role at the moment, making equity loans for home improvement (rather than equity release deals) or operating a deferred payment scheme for the costs of care in a residential home.

The drawback for local authorities in doing so is that it ties up their funds, possibly for many years. If local authorities wish to reduce this drawback, they will need to design their equity release deals on terms that might later be sold to a commercial lender or be securitised. Securitising the deals would be preferable, as the local authority

would continue to be the provider and thus retain the customer's confidence. But this is unlikely to be possible in the short term, as securitisation requires volumes well in excess of what seems realistic in the near future, even if all authorities offered their equity release deals as a single package.

Sale of local authority equity release deals to a commercial provider may be a more realistic possibility. The Oldham-Rochdale HMR Pathfinder commissioned an investigation of its scope for doing this (Ernst & Young, 2005). Preliminary discussions with some lenders already in the equity release market confirm that they could be interested in purchasing equity release deals originated by local authorities if they had a reasonable geographic spread. Even in these cases, the minimum volume is likely to be more than the equity release deals that even the largest authority would probably conclude. So authorities would have to act in concert, and their deals would need to follow standard criteria acceptable to prospective commercial purchasers.

But the prospect of sale to a commercial provider may negate the reassurance that customers would derive from the local authority originating the deal. Although it would be possible to constrain the purchaser's discretion considerably, so as to give much protection to the customer, perceptions may be more influential. Customers' attitudes would need to be tested before it was worth devoting much time to developing local authority equity release deals that were to be sold on to the commercial sector.

A funding company sponsored by local government to provide equity release deals

An alternative approach, which may be more attractive both to home owners and to local government, would be to establish a funding company sponsored by local government, which would be an additional provider of equity release deals. Its primary focus would be on home owners unable, or unwilling, to obtain an equity release deal commercially.

The attractions would be:

1 *for home owners:*
   - a provider, and products, sponsored by local government, which may overcome some of the distrust of commercial providers and products that a number of surveys have reported

- equity release deals available on a wider range of types of property than is available commercially
- equity release deals for smaller amounts than are normally available commercially

2 *for local authorities:*
- a straightforward way of helping older home owners without needing to operate a lending service themselves
- scope for minimising the costs to the authority of securing deals for those it wishes to see helped.

The funding company, sponsored by local government, would be able to finance the equity release deals with 100 per cent funding from the private sector. To avoid the borrowing scoring as public sector finance, the company would need to have a maximum of 49 per cent public sector ownership and the funding risks would have to be with the private sector

If an authority wished to help a home owner living in the kind of property that would not be accepted for a commercial equity release deal, it would provide an indemnity to the sponsored company (as described earlier). If an authority wished to help a home owner by subsidising the terms of their deal (for example, by setting a reduced rate of interest), they could provide the sponsored company with the shortfall between the amount paid to the home owner and the amount of finance that could be raised from the private sector against that subsidised deal.

The sponsored company would be subject to the same requirements of the FSA as commercial providers of similar products, thus ensuring a high level of consumer protection. Supporting authorities would determine the extent (if any) to which they wished to contribute to the costs of setting up a deal. The company might make it a condition that the supporting authorities would offer a service of guidance and support to equity release applicants, either themselves or through others, as described earlier.

In addition, a local authority might wish the sponsored company to make non-commercial loans on its behalf, such as unsecured loans for small amounts and interest-free equity loans. The funding for non-commercial loans would have to be provided to the company by the local authority. The company would advise the local authority of any opportunities to refinance a part or all of these loans with private finance in the future.

A JRF paper suggested that:

> … a positive step forward would be to ensure that home owners do not have to sell their homes and move into residential care to afford high care costs. This might be achieved through a publicly supported, easy-access equity release scheme enabling people to defer payments while living at home. The cost would depend on take-up, but most would be covered eventually by repayments with interest.
> (JRF, 2006, p. 10)

A funding company sponsored by local government, on the lines suggested above, could be a suitable provider of such a role.

It is recommended that there should be an exploration of the extent of interest from local authorities and HMR Pathfinders in the possibility of using a funding company sponsored by local government. Such a company could be newly formed or it could be an extension of the activities of an existing organisation providing similar finance.

If there is sufficient interest, it is recommended that central government (DCLG and DH) be approached for funding for a detailed feasibility study. The feasibility study would need to involve representatives of local government and equity release providers.

Reconsidering the incentives and disincentives presented by means-tested benefits

Older home owners who are entitled to benefits (or are likely to become entitled) are often likely to be advised that it would not be in their financial interests to enter into an equity release deal. This is because they would risk such loss of benefit that they would be left little if any better off.

This advice reflects in part the attributes of existing equity release deals, which have not been developed with benefit recipients in mind. It may be possible to use, or adapt, existing deals so that they would enable such home owners to release value from their home with little or no reduction in their entitlement to benefits. But some changes in the rules of entitlement seem likely to be needed. This paper explores what may be possible; but this is a very complex subject, which would need detailed examination by experts in this field.

Before considering adaptations to the benefits system related to equity release, there is one case that needs to be considered separately: expenditure on ‘essential’ repairs and improvements by a home owner entitled to Pension Credit. The most attractive way of financing works defined as ‘essential’ in the legislation[4] is likely to be a conventional interest-only mortgage loan, because interest on such a loan would entitle them to extra Pension Credit reflecting the interest. For qualifying home owners, this would provide a deal equivalent to a (nearly) interest-free lifetime mortgage.

Apart from this particular case, the important attribute of equity release deals in relation to benefit entitlement is whether they yield:

- a regular supplement to income (in cash or in kind); or
- an isolated release of capital intended to meet one-off expenses.

Broadly speaking, the former gives rise to a reduction in benefits, whereas the latter does not. The practical consequences of this distinction may differ between home improvements and repair, and payments for care.

In relation to *home improvements and repair*, home owners entitled to benefits could gain (without reduction in benefits) from equity release deals that were not regarded as yielding a regular supplement to income (in cash or in kind). This should be readily possible, as the sums required to pay for the works would be one-off. In doing so, it might better protect their benefit entitlement if the sums released did not pass through their hands, but went directly (or via a third party, such as an RSL or a home improvement agency) to the organisation carrying out the works. The body procuring the suggested service of support and guidance might be able also to be the channel for such payments, as is currently the case with organisations such as Anchor Staying Put and the Oldham-Rochdale HMR Pathfinder.

A helpful change for home owners on the lowest incomes would be for Government to revise the definition of ‘essential’ improvements for Pension Credit to be consistent with the Decent Homes Standard (DCLG, 2006). The Government is committed to achieving this Standard for the improvement of private sector housing as well as public sector housing (DCLG, 2006). Making this change to the definition would mean that, for the least well-off older people, Pension Credit would cover notional interest on works to bring their home up to the Decent Homes Standard.

In relation to *payments for care*, home owners entitled to benefits are not likely to gain from equity release deals because the care they wish to purchase is ongoing,

rather than once-off. If they obtained an equity release deal that provided a stream of income to pay for such ongoing purchases, it could be regarded as adding to their income, and so would normally lead to reduction in their benefit, thus leaving them worse off if they were committed to making the care payments.

The impact may be deferred, however, for recipients of Pension Credit aged over 65 (or a couple where both are over 60 and one is over 65) if an 'Assessed Income Period' (AIP) – normally lasting five years – has been set for them. Within an AIP, increases in income have no effect on benefit entitlement. An AIP would not be set if an equity release deal was in prospect within its first 12 months. But, if such a deal was not foreseen, or happened later in the AIP, extra income could be taken, which could be used to pay for care. But, if that arrangement were still in place when a fresh assessment was made at the end of an AIP, a reduction in benefits would apply subsequently.

This means that, for those to whom this provision applies, it appears to be possible to use an equity release deal in the later years of an AIP, without loss of benefit, to produce income with which to pay for care services. But the deal would have had to terminate before a fresh assessment was made if loss of benefit was to be avoided.

There does seem to be a tension between the desire for more older people to be able to remain in their homes for as long as possible and the obstacles to them using value in their home to pay for care not funded by the local authority. Equity release, using their own assets, could provide a way of easing continued living at home.

It would be desirable for the Government to provide a more practical way in which an older home owner's equity in their home could be used to purchase care at home, without adverse effect on their entitlement to benefits. The most straightforward way of doing so would be to allow a *de minimis* amount of equity release to be carried out without affecting any entitlement to benefits. It would seem equitable to adopt the same *de minimis* threshold that the better-off are given under Inheritance Tax, where amounts of no more than £3,000 in a year are disregarded in determining future tax liability.

Disregarding such an amount each year would offer a solution to many older home owners whose needs are modest, but beyond what they can afford from their small income, and would cut the cost of setting up deals.

- £3,000 a year would be sufficient to pay for modest home improvements and repairs, or some care, which would be very valuable in improving the quality of life of older people.

- It would greatly simplify the advice that the customers needed to digest, and the costliness of advice for people seeking to release small amounts, because customers requiring such small amounts could simply be told that their benefit entitlement would be unaffected.

Government may, nevertheless, be concerned that such an arrangement might appear in conflict with the presumption that income obtained from the capital value of the home should be treated in the same way as any other extra income. In that case, a defensible distinction might be made between such drawings generally and those used to purchase services the Government accepted as of merit in helping people to continue living independently, but beyond the usual scope of community care services funded by the local authority. As further precautions against misuse of such a provision, it might be made subject to a condition such as:

- a requirement for the released money to be channelled through a trusted intermediary, such as a local authority or an RSL (or possibly a charity of substance), which could be accountable for the use of the released money only for acceptable purposes (though such an approach would have a cost); or

- confining the arrangement to people assessed by a local authority as needing care.

Government may perceive allowing a *de minimis* amount of equity release to be carried out without affecting any entitlement to benefit as having a cost on the grounds that an increase in income would otherwise lead to a saving in means-tested benefits. This needs to be questioned. Virtually no benefit recipient would release such equity at present, because FSA regulations require them to be advised not to do so, as the consequent loss of benefit would leave them little or no better off. So, in the absence of the proposed *de minimis* provision, most home owners on benefits would forego the extra care, or modest home improvements or repairs. This means that the aggregate of benefits payments would be virtually unchanged if the Government introduced this provision.

Care at home provided by local authority social services, or paid for through direct payments, is usually subject to charges, determined following a means test. Each authority sets its own basis for charging, so it is not possible to make generalisations about changes that might be desirable. However, the Department of Health does place constraints on local authorities' charging regimes (DH, 2003a). These constraints are broadly modelled on those governing charging for residential care homes (DH, 2006a), but disregarding capital in the person's home. If the Government were to allow a *de minimis* amount of equity release to be carried out

without affecting any entitlement to benefits, as proposed earlier, it would be very desirable for corresponding changes to be made in the constraints on local authorities' discretion over their charges for care at home and to ensure that such equity release did not affect the assessment of the person's care needs.

Paying for works or a replacement home, when affected by housing renewal

In the HMR Pathfinders, and to some extent elsewhere too, housing renewal schemes mean that some home owners will have to move so that their home can be demolished, and others will be urged to carry out improvements. Unlike the home owners considered earlier in this chapter who could choose not to release equity in their home to spend on works or care, those in renewal areas have a more compelling need to raise money. They need funds to bridge the funding gap between the cost of works, or the higher cost of another home, and what they can afford to pay on a conventional mortgage loan after any grants and compensation. What is feasible differs between older home owners and younger ones.

Older home owners aged over 60 could be assisted, at least partially, by an equity release deal on similar lines to those discussed earlier in this chapter. They would use their home, or the home they were moving into in the case of those affected by demolition, as the property to which the equity release deal was attached, with the lump sum yielded by the deal meeting as much of the funding gap as possible. The amount that could be raised in this way would be constrained by the age of the home owner, as well as the value of the property, as described in Chapter 2. If more were needed, this approach would have to be combined with the approach suggested below for younger home owners.

Younger home owners would not be able to obtain such an arrangement. Assuming that the home owner takes the maximum available conventional repayment mortgage loan, they cannot afford to make any regular payments on the further funds needed to bridge the funding gap. The only solution is a source of funds that defers repayment of principal and interest until the property is sold. As funds are not available from the private sector on this basis for younger people, the public sector would have to bridge the funding gap. It could minimise the eventual cost to it by providing the funds in the form of an interest-free equity loan, as has been done by the Oldham-Rochdale HMR Pathfinder through West Pennine Housing Association.

An alternative for low-income home owners affected by demolition would be for the home owner to become a shared owner in their replacement home. Since rent would be payable on the rented portion of the shared ownership property, the home owner would have less money available to make payments on a conventional mortgage, unless they were eligible for Housing Benefit. So, as a shared owner, they would probably own a smaller share of the total value of the property than if they were given an interest-free equity loan to bridge the funding gap. The cost to the public sector as a whole would be similar to an interest-free equity loan, but the shared ownership landlord would gain additional capital growth, which could be used to meet other housing needs in the future.

The guidance and support described earlier in this chapter in relation to equity release deals would be particularly relevant for people facing a funding gap because of housing renewal plans affecting their property. Some local authorities have recognised this need. For example, Liverpool City Council is already offering a comprehensive guidance service using Home Ownership Advisory Officers for households affected by demolition; this service is funded by the Newheartlands HMR Pathfinder. JRF has recently funded a research project looking at the work of HMR Pathfinders. The project report (Cole and Flint, 2006, forthcoming) identifies and evaluates the range of financial, legal and other forms of support mechanisms being provided to home owners in low-value properties.

In view of the very limited options available for younger home owners with mortgages who are affected by demolition, it is recommended that an assessment 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 investigate:

- what best meets the home owners' reasonable needs
- what the benefits and drawbacks of each variant are for commercial mortgage lenders
- which variants are the better, or worse, uses of limited public sector contributions to fill the funding gap.

It would also seem worthwhile to examine whether the funding company sponsored by local government, which has been suggested as a means by which local authorities might originate equity release deals, could serve a second, separate, function of providing the public sector's lending to home owners affected by housing renewal. For customers, dealing with a funding specialist regulated by the FSA

should ensure that they get the most appropriate financial deal available, for their particular circumstances. For local authorities, it could offer scope for savings on administration by providing a specialist back-office function, working on a bigger scale. Although equity loans are unlikely to be saleable to the private sector at the moment, if market sentiment changed, the holder of a substantial portfolio of such loans with a reasonable geographic spread would have a better chance of negotiating a sale than any individual local authority.

4 Conclusions and recommendations

This chapter gives the conclusions and recommendations from the study.

- The market now has suitable and safe equity release products for most older home owners. Attention should be directed to ways of extending this option among the limited groups currently excluded (such as those in some former council housing or in accommodation with substantial service charges) and for those seeking small sums. Representatives of local government and the equity release providers should examine ways of helping these groups by the use of some sharing of risk, and set-up costs, between the public and private sectors.
- A much better service of guidance and support, which integrates all the help required to solve the particular need, whether for works to the property or for additional care at home, is needed. The feasibility, costs and benefits of such a service should be examined.
- Government should also revise the definition of 'essential' improvements for Pension Credit to make it consistent with the Decent Homes Standard.
- Government should facilitate the use of moderate amounts of equity in people's homes without affecting entitlement to benefits (up to £3,000 a year is proposed). In particular, Government should accept that withdrawal of such modest amounts for the purchase of additional care in the home should be possible without loss of benefits as is, in practice, largely possible for necessary home improvements and repairs.
- Local authorities should consider offering equity release deals themselves for low-income home owners to pay for works to their property or for additional care at home. The interest in a funding company sponsored by local government should be explored; if sufficient, local government should discuss with representatives of providers how local authorities' equity release deals might be made by such a company with 100 per cent private finance. A secondary purpose of the funding company could be to make non-commercial loans, such as small unsecured loans and interest-free equity loans, on behalf of, and financed by, local authorities.
- For home owners whose home is affected by housing renewal, there can be a funding gap between what they can afford and the cost of renovations or a replacement house. For older home owners, a commercial equity release deal could fill at least part of the funding gap. But, for younger home owners, there is little alternative to the public sector filling the whole funding gap, probably with an interest-free equity loan.

Conclusions

Removing the obstacles for commercial equity release deals

Equity release deals are now readily available for most older home owners on flexible terms. Developments in the market over the last year or so have reduced prices, so that those for equity release are only slightly higher than those for mainstream mortgage lending. Deals for relatively small sums are possible and there is considerable variety in the ways in which the money can be drawn. But equity release deals are not generally viable for people below retirement age.

There is still widespread mistrust of equity release products and providers, and belief that the deals are not good value for money. Regulation of the sales process by the 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.

Regulation of the sales process by the FSA should ensure that older people get an appropriate and well-priced deal. But there are still some kinds of property on which commercial equity release deals are unlikely to be done. And the cost of setting up a deal is relatively high, especially if the amount being raised is relatively small. It is therefore *concluded* that:

- the market now has suitable and safe equity release products for most older home owners, and attention should be directed to ways of extending this option among the limited groups (such as those in some former council housing or in accommodation with substantial service charges) currently excluded and for those seeking small sums

- representatives of local government and the equity release providers should examine ways of helping these groups by the use of some sharing of risk, and set-up costs, between the public and private sectors.

The need for better guidance and support for older home owners requiring works to their home or additional care in the home

For older low-income home owners, guidance on housing and care options can be difficult to find. When equity release is the chosen funding option, it can involve a

daunting process with professionals with whom they are not familiar. Help with the process is very limited. Achieving a successful outcome, both financial and practical, when home improvements or additional care in the home is needed often presents older home owners with formidable challenges involving unfamiliar matters. They need reassurance that they will not be taken advantage of and will get reasonable value for money. Beyond family and friends, help is often available only patchily, and what is available is often fragmented, making it difficult to put together all the components needed. It is therefore *concluded* that:

- a much better service of guidance and support is needed, which integrates all the help required to solve the particular need, whether for works to the property or for additional care in the home

- the feasibility, costs and benefits of such a service should be examined.

Simplifying the benefits position for older people considering equity release

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. 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 *concluded* 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 the equity in the home. 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. It is therefore *concluded* that:

- the Government should facilitate the use of moderate amounts of equity in people's homes without affecting entitlement to benefits (up to £3,000 a year is proposed); in particular, Government should accept that withdrawal of such modest amounts for the purchase of additional care at home should be possible without loss of benefits as, in practice, is largely possible for necessary home improvements and repairs

- 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.

Local authorities arranging equity release deals

There continues to be widespread suspicion among older home owners of equity release deals and providers. This may be overcome in time if they become a commonplace product offered by the familiar high street lenders. The guidance and support proposed in Chapter 3 may be able to provide some low-income older home owners with adequate reassurance. But, if this does not seem sufficient, it is *concluded* that:

- local authorities should consider offering equity release deals themselves for low-income home owners to pay for works to their property or for additional care at home, particularly if the Government agrees to the £3,000 per annum *de minimis* arrangement proposed above

- it is likely to be more cost-effective to do so through a funding company sponsored by local government than for authorities to operate individually; and, 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 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

- the interest in a funding company sponsored by local government should be explored and, if positive, local government should discuss with representatives of providers how authorities' equity release deals might be made by such a company with 100 per cent private finance

- if the funding company sponsored by local government for equity release is pursued, a secondary purpose of the company could be to make non-commercial loans, such as small unsecured loans and interest-free equity loans, on behalf of local authorities with public sector funding.

Equity release for home owners affected by housing renewal

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 owners need and the maximum borrowing they could afford to service. It is *concluded* that:

- for older home owners, a commercial equity release deal could fill at least part of the funding gap; but

- for younger home owners, there is little alternative to the public sector filling the whole funding gap, probably with an interest-free equity loan.

Recommendations

Make commercial equity release deals more widely available

Local government and the equity release providers should examine 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

- producing appropriate standard documents and procedures.

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

Those with some experience in the field should:

- examine 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
- review good practice in providing information and advice on care services, to enable older people to remain in their own home longer, and disseminate this to local authorities and other interested parties.

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

Central government should:

- revise the definition of 'essential' improvements for Pension Credit to be consistent with the Decent Homes Standard
- provide 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
- facilitate the use of moderate amounts (up to £3,000 a year) of equity in people's homes without affecting entitlement to benefits and make 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

Local government should:

- consider offering equity release deals, particularly if the Government agrees to the £3,000 *de minimis* arrangement; and, if there is sufficient interest,

- approach central government (DCLG and DH) 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 should:

- 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 HMR Pathfinders, with public sector funding.

In view of the very limited options available for younger home owners with mortgages who are 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 investigate:

- what best meets the home owners' reasonable needs
- what the benefits and drawbacks are for commercial mortgage lenders of each variant
- which variants are the better, or not so good, uses of limited public sector contributions to fill the funding gap between what they need to spend and the level of mortgage that they can afford.

Notes

Chapter 1

1 The Regulatory Reform (Housing Assistance) (England and Wales) Order 2002 (SI 2002/1860).

Chapter 3

1 The Regulatory Reform (Housing Assistance) (England and Wales) Order 2002 (SI 2002/1860), article 3.

2 Local Government Act 2000, section 2.

3 National Assistance Act 1948, section 29; Chronically Sick and Disabled Person Act 1970, section 2.

4 The State Pension Credit Regulations 2002 (SI 2002/1792), schedule II, paragraph 12(2).

Bibliography

Age Concern (2004) *Equity Release and Income-related Benefits*. Information sheet IS/7. London: Age Concern England

Age Concern (2005a) *Raising Income or Capital from your Home*. Factsheet 12. London: Age Concern England

Age Concern (2005b) *Paying for Care at Home*. Factsheet 46. London: Age Concern England

Age Concern (2006a) *Pension Credit*. Factsheet 48. London: Age Concern England

Age Concern (2006b) *Housing Benefit and Council Tax Benefit*. Factsheet 17. London: Age Concern England

Baxter, L. and Bennett, J. (2006) 'Building confidence in the equity release market', *CML Housing Finance*, April

CML (Council of Mortgage Lenders) (2004) 'Shared futures: taking home ownership forward through shared equity', *CML Housing Finance*, winter

CML (2005a) *Lifetime Mortgage Sales Process*. CML Good Practice Notes. London: CML

CML (2005b) *Homeswaps*. CML policy briefing note. London: CML. Available at http://www.cml.org.uk/cml/policy/issues/164 (accessed on 29 June 2006)

CML (2006a) *Statistics: Equity Release Market Summary*. MM7. London: CML. Available at http://www.cml.org.uk/cml/statistics (accessed on 29 June 2006)

CML (2006b) *Low-cost Home-ownership*. London: CML. Available at http://www.cml.org.uk/cml/policy/issues/166 (accessed on 29 June 2006)

CML assisted by Ferret Information Systems Ltd (2006c) *Equity Release and the Impact on Benefits and Tax.* London: CML

Cole, I. and Flint, J. (2006, forthcoming) *Addressing Housing Affordability, Clearance and Relocation Issues in the Housing Market Renewal Pathfinders.* York: JRF

Counsel and Care (2006) *Paying the Fees of a Care Home in England*. Information paper 16. London: Counsel and Care

DCLG (Department for Communities and Local Government) (2006) *A Decent Home: Definitions and Guidance for Implementation; June 2006 – Update*. London: DCLG

DH (Department of Health) (2003a) *Fairer Charging Policies for Home Care and Other Non-residential Social Services: Guidance for Councils with Social Services Responsibilities*. DH Circular LAC(2001)32, version 2. London: DH

DH (2003b) *Determination under Section 93 of the Local Government Act 2000 of the Deferred Payments Grant for 2003/04*. London: DH

DH (2005) *Independence, Well-being and Choice: Our Vision for the Future of Social Care for Adults in England*. London: The Stationery Office

DH (2006a) *Charging for Residential Accommodation Guide*. London: DH

DH (2006b) *Our Health, our Care, our Say: A New Direction for Community Services*. Cm. 6737. London: The Stationery Office

DTZ Pieda Consulting (2006, forthcoming) *Evaluation of New Forms of Finance to Meet PSA7 Private Sector Target for Decent Homes*. London: DTZ Pieda Consulting

DWP (Department of Work and Pensions) (2005a) *A Guide to Housing Benefit and Council Tax Benefit*. Booklet RR2. London: DWP

DWP (2005b) *A Guide to Pension Credit*. Booklet PC10S. London: DWP

EC (European Communities) (1997) *Consolidated Version of the Treaty Establishing the European Community* (97/C 340/03) (incorporated in the Treaty of Amsterdam) (Table VI, Chapter 1, Section 2). Brussels: EC

EC (2005) 'Commission Decision of 28 November 2005 on the application of Article 86(2) of the EC Treaty to State Aid in the form of public service compensation granted to certain undertakings entrusted with the operation of services of general economic interest (2005/842/EC)', *Official Journal of the European Union*, Vol. L312, 28 November, pp. 67–73

Equity Release Working Party (2005) *Equity Release Report 2005*. London: The Actuarial Profession

Ernst & Young (2005) ‘Equity loan market potential’, commissioned by the Oldham-Rochdale Housing Market Renewal Pathfinder, unpublished, but available from the Pathfinder

F&IoA (Faculty and Institute of Actuaries) (2005) *Continuous Mortality Investigation; FSA Handbook of Rules and Guidance – Mortgages: Conduct of Business; Chapter 9: Lifetime Mortgages: Product Disclosure: Notes Provided by the CMI to Assist the Calculation of Life Expectations Required under MCOB 9.4.6R(5)*. London: F&IoA. Available at http://www.actuaries.org.uk/Display_Page.cgi?url=/cmi/lifetime_mortgage.html (accessed on 29 June 2006)

FSA (Financial Services Authority) (2005a) *Mortgage Disclosure: Mystery Customer Research Report*. London: FSA

FSA (2005b) *Financial Capability: Developing the Role of Generic Financial Advice*. London: FSA

FSA (2006a) *FSA Handbook of Rules and Guidance – Mortgages: Conduct of Business (MCOB)*. London: FSA. Available at http://fsahandbook.info/FSA/html/handbook (accessed on 29 June 2006)

FSA (2006b) *Regulation of Home Reversion and Home Purchase Plans*. Consultation paper CP06/8. London: FSA

FSA (2006c) *Lifetime Mortgage Sales and Advice: Improvements Made, But Further to Go.* Press release FSA/PN/071/2006. London: FSA. Available at http://fsa/gov.uk/pages/Library/Communication/PR/2006/071.shtml (accessed on 20 July 2006)

Groves, R. and Sankey, S. (2005) *Implementing New Powers for Private Sector Housing Renewal*. York: Joseph Rowntree Foundation

Hirsch, D. (2005) *Facing the Cost of Long-term Care: Towards a Sustainable Funding System*. York: Joseph Rowntree Foundation

Hosty, G. (2005) ‘Pricing, risk and potential in the equity release market’, *CML Housing Finance*, March

Johnstone, S. (2005) *Private Funding Mechanisms for Long-term Care*. York: Joseph Rowntree Foundation

JRF (Joseph Rowntree Foundation) (2005a) *Home-ownership Risks and Sustainability in the Medium Term*. York: JRF

JRF (2005b) 'Attitudes to inheritance in Britain', *Findings*, No. 0385

JRF (2006) 'Paying for long-term care: moving forward', *Foundations*, No. 0186

Kempson, E. and Collard, S. (2005) *Advice on Pensions and Saving for Retirement: Qualitative Research with Financial Intermediaries*. DWP Research Report No. 289. Leeds: DWP Corporate Document Services

Laverick, E. (2006) 'Equity release for vulnerable households to achieve decent homes?' *Policy Bulletin*, 12 January

Leather, P. (2000) *Crumbling Castles? Helping Owners to Repair and Maintain their Homes.* York: Joseph Rowntree Foundation

London Rebuilding Society (2006) *Social Co-ownership*. London: London Rebuilding Society. Available at http://www.londonrebuilding.com/Templates/internal.asp?NodeID=89912&int1stParentNodeID=89712&int2ndParentNodeID=89717 (accessed on 29 June 2006)

Maxwell, D. (2005) *Using Housing Wealth: Is there a Role for Government?* London: Institute for Public Policy Research

Maxwell, D. and Sodha, S. (2006) *Housing Wealth: First Timers to Old Timers*. London: Institute for Public Policy Research

Mountain, G. and Buri, H. (2005) *Report of the Evaluation of Pilot Local Housing Options Services for Older People.* Sheffield: Sheffield Hallam University for Care & Repair England

ODPM (Office of the Deputy Prime Minister) (2003) *Housing Renewal*. ODPM circular 05/2003. London: ODPM

ODPM (2005) *Mortgage Sales Guidance for Local Authorities and Registered Social Landlords*. London: ODPM

ODPM (2006) *A Sure Start to Later Life: Ending Inequalities for Older People*. London: ODPM

Resolution Foundation (2006) *Closing the Advice Gap: Providing Advice to People on Low Incomes*. London: Resolution Foundation

Rowlingson, K. (2005) 'Attitudes to housing assets and inheritance', *CML Housing Finance*, October

Rowlingson, K. and McKay, S. (2005) *Attitudes to Inheritance in Britain*. Bristol: The Policy Press for Joseph Rowntree Foundation

Scottish Widows Bank (2005) *A 2005 Guide to the UK Equity Release Market*. Edinburgh: Scottish Widows Bank plc

SHIP (Safe Home Income Plans) (2006a) 'Value of business completed by members (1st quarter, 2006)', unpublished, but available from SHIP

SHIP (2006b) *SHIP Grants Membership to Partnership Home Loans*. Press release. London: SHIP. Available at http://www.ship-ltd.org/bm~doc/15-may-2006.pdf (accessed on 29 June 2006)

Smith, J. (2004) 'Exploring attitudes to housing wealth and retirement', *CML Housing Finance*, Autumn

Social Exclusion Unit (2006) *A Sure Start to Later Life: Ending Inequalities for Older People*. London: ODPM

Sodha, S. (2005) *Housing-rich, Income-poor; the Potential of Housing Wealth in Old Age*. London: Institute for Public Policy Research

Terry, R. and Leather, P. (2001) *The Market for Equity Release Schemes*. London: Council of Mortgage Lenders

Wanless, D. (2006) *Securing Good Care for Older People: Taking a Long-term View.* London: The King's Fund

Wessex Reinvestment Trust (2005) *Special Loans for Home Improvements*. Exeter: Wessex Reinvestment Trust. Available at http://www.wessexrt.co.uk/homeimp.html (accessed on 29 June 2006)

Which? (2006a) 'Unlocking equity from your home', *Which?*, January, p. 30

Which? (2006b) *Equity Release*. Factsheet. Hertford: The Consumers' Association