Care Services Improvement Partnership CSIP

Housing LIN

Rainy Days & Silver Linings: Using equity to support the delivery of housing or services for older and disabled people.

This report sets out the landscape of equity release possibilities for older home owners, and describes a range of models that use equity in a variety of ways to provide additional housing or support for other vulnerable people.

We help to improve services and achieve better outcomes for children and families, adults and older people including those with mental health problems, physical or learning disabilities or people in the criminal justice system. We work with and are funded by DH Department of Health

What is the Housing Learning and Improvement Network?

The Housing LIN brings together groups of senior staff within local authorities, primary care trusts, registered social landlords, the private sector and others interested in forging closer partnerships in delivering housing with care solutions for older people and vulnerable adults. It is part of CSIP Networks, which is itself part of the Care Services Improvement Partnership (CSIP).

Care Services Improvement Partnership

The Care Services Improvement Partnership works to improve the development of health and social care services. The Department of Health and the Strategic Health Authorities (SHAs) jointly commission four national CSIP programmes to deliver work through eight regional development centres.

They work with communities, systems and organisations that are engaged with the health and social care needs of older people, people with mental health problems and learning disabilities, people in the criminal justice system and children, young people, their families and carers.

RDCs and national programmes work in three ways:

> to develop capacity and capability locally to achieve improvements in delivery;

> support policy implementation; and

> support the development of policy.

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Foreword

This guide is published at a time of turbulence in the housing market as an oft-predicted “correction” takes place.

Much of it aims to meet the need for a practical, straight-forward description of the range of products available in a market still facing scepticism stemming from some history of unsatisfactory products.

However, in commissioning this report, we felt it was equally important to examine both awareness of and attitudes towards equity release – and what it should reasonably be expected to pay for.

The transformation of Britain into a property-owning society, partly fuelled by the introduction of the Right-to-Buy policy in the eighties, has inevitably led to controversy over whether the home should be used to pay for long term care needs.

That controversy will heat up as more ‘baby boomers’ reach pension age, bringing both added demand and higher expectations of care services.

Research quoted in this guide makes plain that, while this age group and the general public have little difficulty accepting the concept of releasing equity to fund a better lifestyle, there is still significant resistance to the idea of the resulting cash being used to fund care. The belief that the State should pay remains.

This is delicate territory encompassing issues such as younger people’s expectations of an inheritance and inter-generational schism over higher taxes versus levels of public expenditure.

Policy decisions in this area will affect the experiences of millions for decades to come, the housing market and lifestyle and/or care choices. The trend over the last half century has been a strong rise in housing prices and, therefore, equity. This report offers a reflective and practical tool to ensure that long-term trend produces the greatest benefit and flexibility.

Jeremy Porteus

National Programme Lead
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Contents

Glossary of Terms

The language of equity release can be off-putting. Listed below are common terms along with an explanation.

Annual Percentage Rate	The APR includes things such as: The interest rate you must pay; How you repay the loan (length of loan agreement, frequency and timings of instalment payments and amounts of each payment); Certain fees associated with the loan; and Certain compulsory insurance premiums (for example, payment protection insurance)
Annuity	A type of insurance policy that provides a regular income in exchange for a lump sum. Equity released may be used to purchase an annuity. The income is taxed.
CDFI	Community Development Finance Institution
Compound interest	Compound interest charged at regular intervals, say quarterly, can be added to the amount borrowed. Because interest keeps having to be paid and added to the previous quarters interest (or whatever the period is) the interest that accumulates (rolls up) can grow at a rapid rate. The way interest compounds is arguably one of the most worrying aspects of borrowing for older people.
Drawdown	An arrangement that allows the home owner to withdraw cash on an agreed basis over a period of years, rather than take a single lump sum. It is possible for the owner to draw the sums as they want them or for sums to be drawn down at predetermined intervals, say quarterly. Interest only arises on cash taken out. Drawdown plans account for about half of all equity release.
Equity Loan	Mortgage where the amount to be repaid is expressed as a proportion of the proceeds of the eventual sale of the property. Some equity loans also require the payment of interest either during the loan period or as a rolled-up interest payable when property is sold.
Equity Release	Here means using the capital asset a property represents to buy something else, this could be home improvement, a holiday or services like care or support, but without having to move house.
FSA	Financial Services Authority. The independent body that regulates financial services in the UK
HIA	Home Improvement Agency. Sometimes known as 'Care and Repair' or as 'Staying Put'. They specialise in helping older and disabled people improve, repair or adapt properties.

Home Reversion	The sale of a property for cash or income or both, subject to a lease entitling the home owner or partner to continue in occupation, rent-free until the death or a permanent move into residential care of both. At that point, the organisation which holds the rights to the reversion can sell it and retain the proceeds (or some proportion of the proceeds if that was what was agreed).
Interest Only Mortgage	Loan requiring repayment of only the interest on the mortgage during the loan period but not the capital. The capital borrowed is eventually repaid from the proceeds of the property when it is sold.
Lifetime Mortgage	A loan that requires no payments by the borrower until the property is sold.
Negative Equity	Is where the amount owed to the lender is more than the value of the property i.e. more is owed than was borrowed.
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; you will never owe more than the current value of the property. All members of Safe Home Income Plans (SHIP) offer this guarantee.
No Possession Guarantee	A guarantee that possession of a property subject to equity release will never be sought, even if 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.
Rolled-up Interest	Interest that accumulates and is added to the eventual repayment of the loan. Because it is not paid off at regular intervals during the period of the loan it is said to be rolled up.

1. Introduction and scope

This guide is designed to set out the 'landscape' of equity release possibilities for older home owners but go beyond this by also describing a range of models that use equity in a variety of ways to provide more suitable housing, care or support for other vulnerable people. This review is consequently quite wide in scope.

The guide has been prepared against a background of demographic change with a very large projected increase in the number of older people in the population as highlighted in the Government's new National Strategy on Housing for an Ageing Society, 'Lifetime Homes, Lifetime Neighbourhoods' (CLG, 2008) as well as the emerging findings from the review of Home Improvement Agencies (The Future Home Improvement Agency: Supporting Choice and Maintaining Independence, CLG, 2008).

Those over pensionable age are expected to rise from 11.3 million (18.7% of the population) to 14.9 million (21%); an increase of nearly a third in just 25 years (ONS, 2006-based UK projections). Three out of four of those now retiring are home owners.

The policy context includes an ongoing debate about how social care should be funded and services re-configured as people live longer. The alternatives have been comprehensively reviewed in the Wanless social care review (Securing Good Care for Older People: Taking a Long Term View, D Wanless, Kings Fund, 2006). A national strategy on ageing was most recently set out in 'Opportunity Age' (Opportunity Age: Meeting the Challenges of Ageing in the 21st Century, DWP, 2005) and then in a Government White Paper (Our Health, Our Care, Our Say; A New Direction for Community Services, DH, 2006). There is a problem with funding. The Government's analysis of why change is required has most recently been summarised like this:

The need for change
"The existing care and support system is not sustainable because of the massive challenge that changing demographics represent for our society. In 20 years time the cost of disability benefits could increase by almost 50%. We expect a £6 billion 'funding gap' in social care just to deliver the same level of support that people experience now. If social care rises at the same pace as anticipated economic growth.

People also have changing expectations about the quality and type of services they experience, with ever increasing numbers wanting to stay in their own home and avoid institutionalisation. The existing system does not always live up to people's expectations. Too often, our existing system also under funds the kind of preventative home-based domiciliary care necessary to keep people active and healthy. The current system has a tendency to create an over reliance on residential care or even health care options, when the preference of many people would be earlier interventions to help them stay in their own home and help them stay active."

Source: *The case for change – why England needs a new care and support system, HM Government, 2008*

The themes in these reviews continue the long established policy of supporting people to continue to live at home in later life, widening choices and reducing dependence on more institutional forms of provision:

- Emphasis on prevention, early intervention and promoting well-being – healthy, active, ageing
- Supporting individual control and choice, empowering people to make decisions, the personalisation of services– this is apparent in the development of Direct Payments, Individual Budgets and very recently 'personal budgets' announced in December 2007 with details of the planned 'transforming social care' set out in a Local Authority Circular with that title (LAC, DH, 2008)
- Joining up services and pooling funding – easier access to services, one stop shops, integrated community based services; housing, health and social care

Against this background our guide explains:

- The different **commercial** equity release products now available for older people
- **Non-commercial** equity based products particularly intended for repairs, improvements and adaptations
- How **shared equity/ownership** products in the public and voluntary sector can work for older, disabled and other needs groups when linked to some equity investment
- The range of entirely, **privately financed**, equity based models **that can provide affordable social housing** for older people and some other vulnerable groups

The definition of equity used here includes:

- Equity represented by the individual's own property
- The use of 'third party' equity to house a vulnerable person

The models explored include:

- Lifetime mortgages
  - Repayment
  - Interest only
  - Rolled up interest
  - Property appreciation
  - Interest free
- Reversion schemes
- Equity swap
- Trickle transfer of equity
- Deferred Payment Scheme
- Joint ownership directly or by third parties
- Company ownership models
- Use of Discretionary Trusts
- HomeBuy including subsidised disability models
- Privately financed shared equity models

The exploration includes arrangements that are based on outright ownership and shared ownership. The focus is on utilising equity to fund care, support or property related expenditure and investment to acquire more suitable housing or repair, improve or adapt the existing home. Despite the length of the list it is not exhaustive. There are alternatives to achieve similar outcomes for some people based on care insurance, loan stock, using unregistered housing association, co-ownership and other approaches which are only touched on. The number of possibilities indicates the complexity and challenge in finding the best option for any individual circumstances. It also however is a clue to the potential of drawing on equity for some people.

It will become apparent that private care and financial products are not always meeting the needs of older owners. Private care plans are an extremely small market. One of the reasons appears to be the primacy of saving for a future income rather than specifically for care. Limitations in commercial offerings help to explain the development of a range of equity loan products by a number of independent sector organisations who do not trade for profit.

There are also shortcomings apparent in the information and advice available through Independent Financial Advisors (IFAs) and similar agencies which the FSA has drawn attention to.

The guide also covers some of the basic building blocks to explain how equity based products can be used imaginatively to house or even support vulnerable people with low incomes or those dependent on benefits.

- Income Support Mortgage Interest (ISMI) system
- Mortgage market for people on benefits
- Home Ownership for Long term Disabilities (HOLD) system
- Non-commercial loans provided by not-for-profit organisations like Community Development Financial Institutions (CDFI)

It is hoped the guide will help:

- Older, disabled and other people seeking information on releasing equity or how to obtain low cost home ownership
- Professionals seeking an understanding of the mechanics, strengths and weaknesses of different equity approaches to fund care, support, property improvement or services
- Registered Social Landlords (RSLs) interested in expanding the range of low cost home ownership offerings to vulnerable people with and without public subsidy
- Voluntary and commercial organisations seeking an understanding of the part equity may play in social care and provision in the future

2. Setting the Scene

This section explains some of the thinking behind interest in use of equity and answers some of the recurring questions prior to getting into the detail of different 'products'.

What is equity release?

Equity release means unlocking some of the market value of the property you live in without moving house. There are two distinct types of equity release 'product'; lifetime mortgages and home reversion schemes.

A **lifetime mortgage** involves releasing part of the value of a property as a cash sum. The customer **borrows** from the mortgage provider. Normally, the interest rolls up i.e. is added to the loan, until the home owner dies (or moves into a care home). At this point the capital and interest are repaid in full using the proceeds of the property sale. Lifetime mortgages have tended to be based on taking a lump sum but more recently it has become possible with some lenders to 'drawdown' money in stages. Lifetime mortgages are by far the most popular equity release product.

With **home reversion** the home owner **sells** all or a share of their property to a home reversion company in exchange for a cash lump sum. On death the property is sold and the company receives the value of the share they are entitled to. A customer might sell 50% of their home which is worth £100,000 and receive only £20,000 cash rather than £50,000. The cash the provider offers in this example is less than half the current value. The amount offered depends on the reversion companies view of how house prices will move, market rates of interest and the life expectancy of the home owner.

This is a simple starting point. In practice there are many variants and permutations. So with a Home Income Plan you may get an income for life rather than a lump sum, or a bit of both. The recent entry of not-for-profit organisations offering sub-commercial arrangements such as interest free loans for certain purposes also adds to the mix.

What is equity release for?

Guides to commercial equity release schemes may say equity release is for "a more comfortable lifestyle" or to:

- Supplement retirement income
- Raise a capital sum
- Enjoy retirement more fully
- Reduce or eliminate a potential inheritance tax liability
  (Unlocking capital from your home, Tomorrow, 2007)

Equity represented by property is increasingly seen as a source of funding in retirement; for a holiday, grandchildren's education, helping children themselves become home owners, property maintenance. For some involved in social policy, struggling with funding social care for a dramatically increasing population of older people, equity release is seen as a way of bridging the gap between what the welfare state is considered able to afford and the cost.
Until quite recently the prime reason for equity release has been to maintain or improve a lifestyle or housing circumstances. Improving the home is being given new focus by some of the non-commercial lenders who are particularly helping vulnerable owners living in some very poor conditions repair or adapt their homes.

Funding future care is the least popular reason as shown in Table 1 below.

Table 1: The most popular use of equity release

Use	%
Home/ garden improvements	70
Holidays	40
Outstanding debts	31
Treat family or friends	16
Reduce inheritance tax liability	14
Invest for income	14
Special celebration	9
Fund future care needs	1

Source: *Key Retirement Solutions Customer Satisfaction Survey, June 2006.*

The focus in this guide is however on:

- Funding or maintaining housing suitable for older or disabled people and some other vulnerable groups
- Support and social care

And:

For less well off households

- The mechanisms described may however have wider application.

The most basic way of releasing equity in retirement is to sell and buy a cheaper property; downsizing. For those this review is primarily aimed at this may not be a realistic choice. The property may already be adapted or have a limited (low) value perhaps because of poor repair or location. People may not wish to move house. If they do sell there may be insufficient cash to purchase a different, more suitable property.

How much equity?

According to the Halifax, UK loans are now worth £4 trillion. Over the last ten years property prices have risen nearly threefold. There are 4 million pensioner households who are owner occupier in England. Most own their property outright and have about £1,000bn in equity.

The HBOS house price index started in 1983. Using data the graph 1 and table 2 show the 'average' property is now worth £195,000 (Quarter 1, 2008) and there has been an almost seven fold increase, over the last 25 years, since 1983.

Graph 1: Average Property Prices 1983 – 2008 in the UK

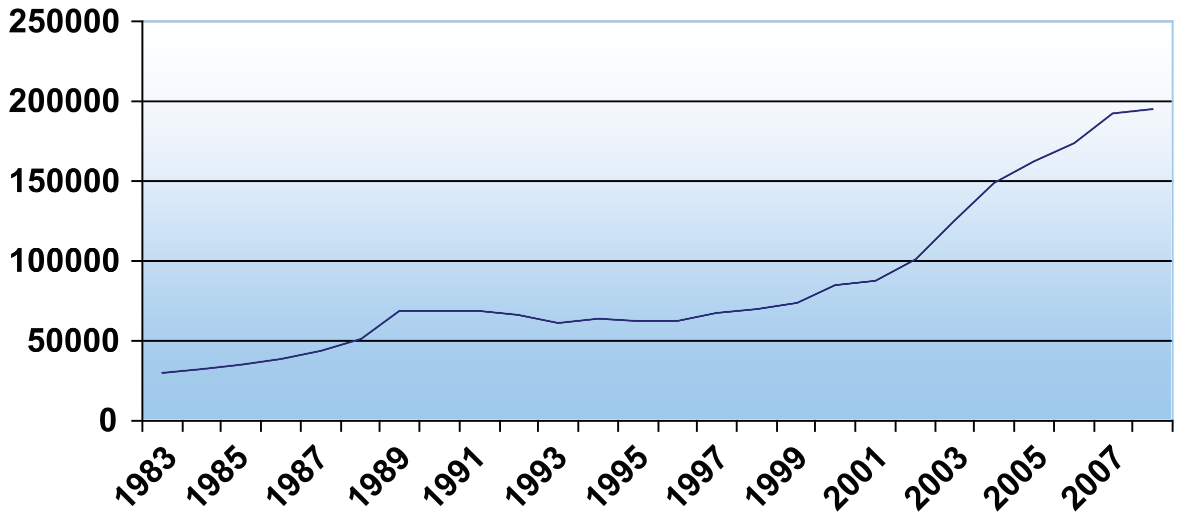


Table 2: Average Property Prices 1983 – 2008 for the UK (Seasonally Adjusted).

Year (1st quarter)	Average price (£)
1983	29,993
1985	35,061
1990	69,103
1995	62,340
2000	84,385
2005	162,785
2008	194,717

Source: *HBOS PLC*

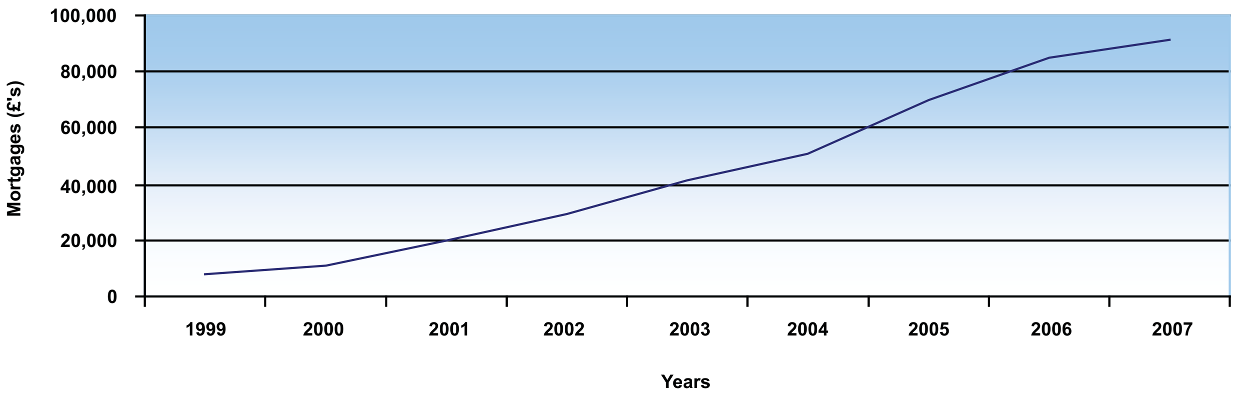
The Nationwide Building Society House Price Index goes even back further, 55 years. Using this, the price of the average UK property has risen by a compound annual rate of 8.7% since 1952. On average over this period, UK house prices double every nine years although there can be periods where falls occur as in the period 1989 - 1993 and as present in 2008.

The guide cited in the introduction refers rather mildly to ‘supplementing income’ a kind of lifestyle insurance, an alternative savings pot. It is arguable that over the last decade a change that taken place, based on this growth in wealth, in approaches to use of equity. This can be seen for example in:

- Buy to let
- Use of property as a pension

Buy to let

Graph 2: Buy to let



The buy to let market has become a significant source of housing to rent in the private sector halting what had been a steady decline in the private rental market. To give some idea of the significance, during the last decade the number of buy to let mortgages has risen from 28,700 in 1998 to 770,000. Towards the end of 2007 the number of new mortgages taken out for buy to let almost matched the number of new mortgages for direct family occupation.

Property and Pensions

In order to discover public attitudes towards property and pensions Motley Fool (a financial information service) quizzed over 1,100 adults in an online survey in 2007.

They found:

- Nearly three out of ten home owners (28%) plan to use their homes to supplement their pensions. As there are 25 million households in the UK, this means that seven million households plan to release equity from their homes in order to supplement their retirement incomes
- Five out of nine people (55%) believe that their pension pot will not be enough to retire on
- Half of home owners (50%) aim to downsize – move to a smaller property – when they stop work
- Two out of seven (28%) intend to release some equity from their homes to shore up their pensions

Since the turn of the century, the stock market has fallen over three years before recovering, and annuity rates have declined although in conjunction with the "credit crunch" are now rising slightly (an annuity is an income generated by an investment, traditionally for a pension); down 72%. Meanwhile over the same period, we've seen a continuing and substantial increase in property values. (Will your home be a good pension? Cliff D'Arcy. MotleyFool.co.uk, August 2007).

From these two examples of buy to let and property as a pension we begin to get a picture of the new place of equity as a potential form of investment for some people, to be used when required, rather than simply as inheritance.

Will house prices fall reducing equity?

There is a risk plans built on equity are fragile because home prices can fall as they are in 2008. The latest Nationwide house price index at Aug 2008 shows an annual rate of decline of 10.5%, bringing the average price of a UK property to £169,000 on this particular index. (Note there are several house price indices which each show slightly different figures related to the composition of the property in the index, geography, timing and similar factors.

What is the historic evidence? Using the longest running house price index from the Nationwide Building Society and looking at year on year changes since 1952, house prices declined on just seven occasions over 56 years.

One scenario is that prices will continue to reduce during 2008, possibly by as much as 20% or even 30% - although there will be significant differences between areas. Thus the 30% fall may apply to high value areas but declines will be less in lower value localities. Historically values tend to fall proportionately more in high cost areas than in lower value areas. Thereafter house prices will recover gradually before the historic pattern reasserts itself. In the short term the availability of mortgage finance is critical. In the longer run the relative balance between housing supply and net household formation is key to determining the equilibrium level of prices.

Even if prices fall substantially for many people, their property will still be their largest single asset and thus in principle still remain a potential mechanism for funding repairs, improvements or services.

Attitudes to inheritance and equity release

There is more evidence that the next or even current generation of retirees will be less committed to passing on wealth on their death. In principle using equity has become more generally acceptable – although there remain significant reservation about the 'products' designed to facilitate release of equity.

The first ever national survey of attitudes to inheritance was published in 2005 (*Attitudes to inheritance in Britain, K Rowlingson and S McKay, Policy Press, 2005*).

Based on interviews with a representative national sample of 2,000 adults this found that:

- More than half those interviewed thought it unlikely they would inherit any property. But 14% expected to do so and another 14% thought it likely
- While the vast majority (85%) said they would like to be able to leave a legacy, half strongly agreed that older people should "*enjoy their retirement and not worry about leaving an inheritance*". Another 38% tended to agree
- Nine out of ten people reported having the potential for them to leave a bequest. Yet 67% agreed with the statement they would "enjoy life and not worry about bequests" compared with 28% who accepted they would "*be careful with money to leave bequests*"
- People in their 50s were least convinced of the need to budget for inheritance

The researchers also examined attitudes to releasing the equity tied up in property. One in four current or former owner-occupiers had accessed equity at some stage: most commonly by borrowing against the value of their property, or 'trading down' for a smaller less expensive home. The main reasons given for releasing equity were home repairs and improvements, paying bills or debts and buying essential items.

Although owner-occupiers tended to think equity release was a good idea in principle, equity release schemes marketed by financial service providers were regarded as too complicated, risky and difficult to understand. Only one in 20 home owners said they would consider an equity release home reversion scheme.

Although people may be more open to equity release this does not mean they are happy to see their equity used to fund care which is seen as a welfare state obligation.

In response to the statement in the Millennium Debate of the Age survey "Older people should be allowed to leave any savings they have including their house to their children rather than using it to pay for care to look after themselves"; roughly 75% of men and 67% of women agree with the question, less than 20% disagreed. (*Consultation response to HM Treasury: regulating home reversion plans*, D Hirsh, JRF, 2004).

Very recently Caring Choices, a coalition of 15 leading organisations involved in long term care reported the results of a national consultation of 700 older people and carers. Amongst nine key findings were:

- Just under three-quarters of all participants believed that the costs of long-term care should be shared between the government and the individual, although there was a range of views on how that could be organised and what the balance should be
- Most participants were in favour of the idea that the state should support schemes, such as equity release, that help to unlock private resources or encourage private contributions towards the cost of care. But there were mixed views on specific schemes and a clear sense that participants felt a variety of options should be encouraged rather than a single 'solution'
  (*Counsel & Care (2008), The future of care funding, Caring choices)*

The majority of older home owners are well aware it is possible to draw equity but about half rule this out. The predominant reason is the perception that the providers of equity release products cannot be trusted. (Obstacles to equity release, Rachel Terry and Richard Gibson, JRF, 2006). Many commercial schemes are also perceived to be poor value for money.

The term 'equity release' is itself seen by many as negative. This is partly for the reasons above and also because of some history of unsatisfactory products which could result in negative equity or threaten security. For this reason some providers avoid using the term. This can sometimes add to confusion but aid appeal! As one commentator working in the industry put it:

"The problem with this whole area is complexity and suspicion. There are too many different types of schemes now available. Prospects are inevitably elderly, distrustful and not only have to select a good scheme, but also 'clear' it with their children. Some schemes involve not only raising capital, but then investing it for income as well – another daunting selection process. No wonder the take up is surprisingly small".

And another:

"With regard to beneficiaries and inheritance, is it really fair to expect an older person to spend their remaining days in poor conditions just so that someone else can inherit their assets, when better conditions could be bought by using their assets for their own benefit?"

How big is the market for equity release?

Demand for equity release plans continues to increase. Retired home owners released more than £660 million from their homes in the first half of 2007. A survey of SHIP members (The SHIP member survey, **www.mortgageintroducer.com**, December, 2007) estimates the equity release market reaching £2.2 billion by 2010.

The table below shows how much people are releasing from their homes.

Table 3: Average equity released

Area	Average property price (£)	Average value released (£)
North	185,600	37,920
Yorkshire and Humberside	165,049	36,713
North West	188,858	36,355
East Midlands	174,913	40,685
West Midlands	200,525	48,884
Wales	173,280	42,718
East Anglia	221,169	48,849
London	400,884	92,662
South West	261,194	66,737
South East	293,246	72,869

Source: *Key Retirement Solutions, UK Equity Release Market Monitor Q2, 2008*

Having described the way equity is being used and thought about by home owners the rest of this guide explains the different approaches to equity release, in particular the 'products' designed to help less well off owners and other vulnerable people. Individuals can of course sell property releasing equity as they choose, older people may move to a cheaper property. None of this needs any special product. The products discussed here mostly come into play

- When people want to stay put, possibly releasing some equity only.
- Where the property is in poor condition or of lower value so trading down is not a realistic option – particularly in the case of non-commercial products
- Where home improvements or renewals are required in order to remain at home or make the property more suitable

3. Commercial Equity Release Products

This section explains how products offered by commercial companies work.

Raising money with Equity Release

Equity release schemes allow the raising of money against the value of a dwelling a person owns while still allowing them to continue to live in it. The debt is repaid on the sale of the property. The equity available is the value the property above any mortgage or debts already secured against the dwelling.

Commercial equity release schemes normally have the following in common:

- A minimum age restriction – usually 60 or above but can be as low as 55
- The applicant is able to live in the property for as long as they want
- A tax-free cash lump sum, an income for life or a combination of both is received
- There are no repayments required until the property is sold. Usually this is when the home owner dies or permanently moves into a care home
- As long as the loaning company is a member of Safe Home Income Plans (SHIP), the applicant is able to move to another suitable property without financial penalties
- Again, as long as the loaning company is a member of SHIP, there is a 'no negative equity' guarantee. This means the estate of the home owner will not be liable for any debt beyond the property value, regardless of fluctuation of house prices. You never owe more than you borrowed.

As noted earlier home owners may use the money that they have released for various 'life-style' reasons or other purposes. They are commonly used for home repairs and improvement but seldom to buy care.

Equity release schemes are not suitable for everyone. Considerations include:

- The alternatives. This could be trading down, grants, use of savings and so on
- The cost of compounded interest over a long period in some products
- The effect that equity release could have on eligibility for state benefits
- The effect on the home owner's tax position – including Income Tax and Inheritance Tax
- Views of the home owner's family and any other potential beneficiaries of their estate. People who work in the field, particularly with less well off older home owners, observe that raising the problem with the family and the possible use of equity release can quite often result in the family finding a different solution
- Has independent financial advice been taken? Have all the benefits or grants entitled to been claimed? It is thought £3 billion or more goes unclaimed each year. The state of the home owner's health and life expectancy – poorer health and shorter life expectancy can increase the amount that can be obtained through a home reversion plan and affect some types of lifetime mortgages
- Future needs, objectives and plans including on-going commitments
- The amount released does not exceed the home owner's current financial requirements
- What the plans are for the money released

As explained, there are two main ways of releasing equity from your home. These are known as home **reversion** and **lifetime mortgages**. The rest of this section looks at these and their variants.

Safe Home Income Plans (SHIP)

Research shows older home owners remain widely suspicious of and lack confidence in commercial equity release products although their use appears to be growing.

Safe Home Income Plans (SHIP) was launched in 1991 to self regulate companies wishing to offer home income and equity release plans and help boost confidence in equity release. Members can display the SHIP logo on their company literature as a guarantee to their customers.

All participating companies are pledged to observe the SHIP Code of Practice:

- The members of SHIP agree to provide fair, simple and complete presentation of their plans. The benefits, obligations, variables and limitations must be clearly set out in their literature, including all costs which the applicant has to bear in setting up the scheme, the position on moving, the tax situation and the effect of changes in house values
- The client's legal work will always be performed by the solicitor of his or her choice. In all cases, prior to the completion of the plan the solicitor will be provided with full details of the benefits the client will receive. The solicitor will be required to sign a certificate to the effect that the scheme has been explained to the client
- The SHIP certificate will clearly state the main cost to the householder's assets and estate e.g. how the loan amount will change or whether part or all of the property is being sold
- All SHIP plans carry a 'no negative equity' guarantee i.e. you will never owe more than the value of your home. This is particularly important as part of the distrust of equity release is rooted in schemes which did results in negative equity debt

Most commercial companies offering equity release products are SHIP members.

SHIP Members* as at August 2008

Bradford and Bingley plc
Bridgewater Equity Release Limited
Bristol and West Mortgages
Coventry Building Society
Dunfermline Building Society
Hodge Equity Release
Home & Capital
In Retirement Services
Just Retirement Limited
LV=
More 2 Life
Mortgage Express
National Counties Building Society
New Life Mortgages Limited
Northern Rock plc
Norwich Union Equity Release Ltd
Partnership Home Loans
Prudential
Retirement Plus Ltd
Saffron Building Society
Standard Life Bank
Stonehaven
Stroud & Swindon Building Society

**Full contact details can be found in the list at Appendix 1*

Home reversion schemes

What is a home reversion scheme?
A home reversion scheme is where a reversion company **buys** or organises for someone else to buy all or part of a home owner's property. In return the home owner gets either a cash lump sum or a monthly income as a result of the lump sum being invested in an annuity or a combination of the two.

It is usually possible to take out a home reversion scheme with a partner providing both are above the minimum age restriction of the scheme; normally for a home reversion scheme this is between 65 and 70.

On the death (or permanent move into a care home) of the home owner (or the last survivor if the scheme was taken out in joint names) the property is sold. The company gets back the value of the proportion of the property that it owns along with any increase in value of that part. The individual or their estate will be credited with the value of the portion that the home owner did not sell and any increase of value on that percentage. If 100% of the property is transferred to the reversion company then when it is sold the company will get the full value of the property, including any gain in value.

The reversion company will not pay the full open market value for the share it purchases. The amount that the home owner will receive for the percentage sold will vary depending on the age and possible health of the applicant(s). Men will receive more than women because of shorter life expectancy rates and if the applicant is in poor health they could receive more. The amount offered is likely to be around 20% of the open market value for someone aged 60 rising about 1% a year for each year over 60 i.e. 30% for someone aged 70. This is because the company has to wait until the property is sold to regain their investment and they are taking various risks including how long it will be before they can sell, what will happen to property values in the intervening years and what interest rates will be.

In effect the company is borrowing (or foregoing the interest it would otherwise have earnt) in exchange for the capital appreciation in the property and this is uncertain. This depressed, 'low value' as owners often perceive it, is one of the things that puts people off reversion schemes.

The home owner retains the right to remain in the property as a tenant for the rest of their life and will be given a lease setting out their rights and obligations; normally the lease will state that the tenant is responsible for all the repairs and maintenance. There is usually a clause that the property has to be kept in a good state of repair and if it is not, then the reversion company is entitled to arrange for the repairs to be done and the cost charged to the tenant.

The lease will also set out whether there is a liability to either pay a nominal rent or no rent at all. In some schemes you are able to pay a higher rent in return for a keeping a higher proportion of the property value on sale.

What is received
The advantage of home reversion is you get a cash lump sum, up front, with no interest payable. You know exactly where you stand. However, as explained and illustrated in the tables below, the borrower will only get a proportion of the open market value of the property and they forgo some or all increase in property value.

It is possible to sell a part only of the property and it can be financially beneficial to sell part initially and then sell a further element at a later date if necessary. Taking the cash in stages is known as 'drawdown'. Taking out equity in steps lets the home owner benefit from any rise in property values and higher annuity rates, if they use the cash to purchase an annuity, as they will be older each time. There will be setting up costs involved each time though and this may cancel out the advantages.

The age, sex and possibly health of the home owner will determine the size of the sum paid for the percentage of the property. Also, a couple will receive less than an individual as there is more chance of one of the couple living a long time and the reversion company having to wait to get their investment back.

If the home owner dies shortly after taking out a plan, then the property (or a share of it) has effectively been sold very cheaply. Some reversion companies will pay a rebate to the estate if this happens.

Table 4: Example of lump sum received by a single person from a home reversion scheme by age and sex based on the home owner selling 75% of their home worth £200,000 (before costs)

Age	Woman	%	Man	%
70	£67,630	45	£73,384	49
75	£73,030	49	£80,178	53
80	£82,866	55	£86,954	58

Source: *Using your home as capital 2006-07, Cecil Hinton et al.*

Table 5: Example of lump sum received by a couple from a home reversion scheme by age based on the home owners selling 75% of their home worth £200,000 (before costs)

Age		%
Both 70	£60,238	40
Both 75	£69,261	46
Both 80	£76,513	51

Source: *Using your home as capital 2006-07, Cecil Hinton et al*

Advantages and disadvantages
The advantages of a home reversion plan are:

- The proportion of the property sold is known from the start
- There are no on-going payments to make
- A fixed proportion of the equity in the property and any rise in value of that share will still go to the estate of the home owner unless the entire value has been sold
- A flexible home reversion plan will allow the release of a required amount needed at the outset and then in the future it is possible to take out more cash if required

The disadvantages of home reversion plans are:

- Ownership of some or all of the property is transferred to the reversion company
- If the property increases in value the home owner will only benefit on the proportion of the property that they still own (conversely they may have gained if values fall)
- If the home owner wants to end the plan early and buy back the property, they will be expected to pay full market value for the percentage sold plus their own and the reversion companies costs
- May result in higher tax liability
- Eligibility for means tested state benefits may be affected by virtue of having additional capital and/or income

Annuities
Some reversion companies offer an annuity income in return for a percentage of the property. This is paid for the rest of the owner's life. If the home owner were to die shortly after taking out the scheme then the payout would stop. Some schemes will continue to pay an annuity for the first five years if the home owner was to die early but to have this option a slightly lower income would be received.

It is possible to have both a lump sum and an annuity from the sale, but the larger the lump sum taken the smaller the annuity.

Some annuity plans are index linked wholly to property values and the value will increase in line with inflation.

Commercial reversion schemes are, as explained, generally more generous to those with low life expectancy and less generous to the healthy and women. They are actuarially driven products that rely on the demise of the customer.

Lifetime mortgages

What is a lifetime mortgage?
Essentially, a lifetime mortgage is a **loan** that is secured against property. The home owner releases a set amount of the equity available from their home and has a choice of ways to pay it back depending on the type of mortgage taken out. The most popular types of mortgage are:

- A roll-up mortgage including draw-down mortgages
- An interest only mortgage
- A fixed repayment mortgage
- A home income plan
- Shared Appreciation Mortgage (SAM) – sometimes called Property Appreciation Loan (PAL)

Roll-up mortgage
The home owner takes out a loan against the value of their property. The home owner can take this sum either as a one off payment or the home owner can take smaller sums of cash, subject to a minimum, as they need it. The interest is charged on each amount as it is taken which means the total amount owed grows more slowly than taking a large sum at the start. Most plans will set out the total amount that the home owner can borrow at the start of the plan.

Interest on the loan is added to the loan regularly - monthly, quarterly or annually but does not need to be paid back to the loan company until some point in the future; when the home owner dies or moves permanently into a care home and the property is sold.

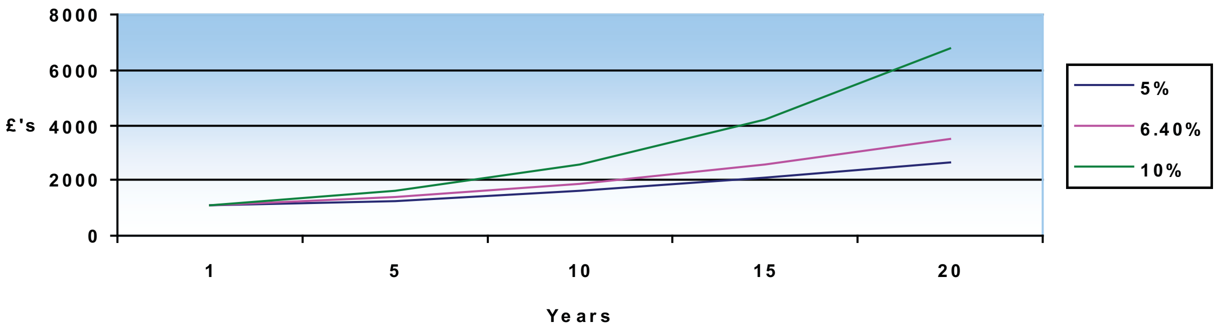
Different schemes offer various ways of charging interest; it can be variable, fixed or capped and some schemes will give a fixed repayment amount. With all these ways the interest on the loan is charged on the original loan **and** the interest that is added each year i.e. it is compounded. This means that the amount the home owner owes can grow very quickly.

The table below demonstrates how compound interest increases. At the time of writing fixed interest rates around 6.4% are available.

Table 6: Example of how compound interest increases on an initial loan of £1,000

	At 5% interest per year	At 6.4% interest per year	At 10 % interest per year
End of year 1	1050	1064	1100
End of year 5	1276	1364	1610
End of year 10	1629	1860	2594
End of year 15	2079	2536	4177
End of year 20	2653	3458	6728

Graph 3: Line graph of how compound interest increases on an initial loan of £1,000



The FSA uses the following example and interest rates to illustrate the impact of compounding on a fairly typical loan of £45,000.

Table 7: Example of how the amount owed using a roll-up mortgage can grow.

Number of years since you took out the loan	Amount you owe if you take a lump sum of £45,000 and the interest rate is:		
	5% a year	7% a year	9% a year
5	£57,433	£63,115	£69,239
10	£73,301	£88,522	£106,532
15	£93,552	£124,157	£163,912
20	£119,399	£174,136	£252,199
25	£152,387	£244,235	£388,039

Source: *FSA Factsheet – Raising money from your home, March 2007*

The amount owed accumulates quickly. Since the person taking out the mortgage does not know how long they will live there is no way of telling how much they will eventually owe – this is the risk.

A variation on the roll-up mortgage is a 'drawdown mortgage'. Instead of the home owner taking a large lump sum at the outset they take a smaller amount, in cash, with the option of drawing additional sums later. This could be on a regular, monthly basis. This is another way of minimising interest charges as the interest does not get charged until the cash is taken.

The drawdown option can provide a higher income than a home income plan (described below) as the interest on the mortgage is not paid back until the house is sold.

Example of drawdown mortgage
Annie takes out a drawdown mortgage that gives her a fixed income of £200 a month. The interest rate is fixed at 6.5% a year. Annie also agrees with the lender that the arrangement fee and the valuation fee will be added to the loan, so she has less to pay in advance.

After a year, the total she owes is £3,190. She has received £2,400 (12 x £200) and £595 was added to the loan. The lender has charged £195 interest for the first year. (£2,400 + £595 + £195 = £3,190). Annie dies after 15 years, having continued to take £200 every month under the drawdown mortgage.

Annie has borrowed a total of £36,595. Interest was added to the loan each year, so the total owed to the lender is £63,339. Her home is sold, the total owed is paid to the lender, and her beneficiaries get the balance.

Source: *FSA Factsheet – Raising money from your home, March 2007*

It is also possible to have a 'credit card' facility on a lifetime mortgage. The home owner can drawdown funds, subject to a pre-determined limit, in a similar way to a normal credit card. However, the mortgage credit card is not as well regulated and offers less protection than a normal credit card.

Interest only mortgage
The home owner takes out a loan secured against the value of their property. They receive a cash sum on which they pay interest. They do not, however, repay the capital until the property is resold – usually on death. The interest rate can be variable or fixed. If the interest is variable it can be difficult, on a fixed income, to afford the payments if the interest rates rise.

Example of interest only mortgage
Fred borrows £45,000 at a fixed rate of interest of 6.5%. His interest payments will be £243.72 per month. After 15 years, Fred dies. He has paid £43,875 in interest. The lender is still owed the original £45,000; which will be repaid from the sale of the house. Any remaining money will belong to Fred's beneficiaries.

Source: *FSA Factsheet – Raising money from your home, March 2007*

Fixed repayment lifetime mortgages
Again the home owner takes out a loan secured against the value of their property, but instead of repaying the interest each month the home owner undertakes to pay the lender a higher sum than was borrowed when the property is sold, . This sum is fixed at the start so that the home owner knows exactly what they will be paying back. The amount paid back is dependent on age and life expectancy. The length of the loan is irrelevant; the amount paid back is the same whether the home owner lives for 2 years or 20 years. However, the lender may charge interest on the total sum owed to them for the time between the death of the home owner and the date the loan is repaid.

Example of fixed repayment mortgage
Edith takes out a fixed repayment mortgage when she is 75. She borrows £30,000. The fixed sum due to the lender is £90,000. When she dies, the amount owed to the lender is £90,000 plus interest from the date she dies to the date the mortgage is actually repaid.

Source: FSA Factsheet – Raising money from your home, March 2007

Home income plans
As before the home owner takes out a loan secured on the value of their property. The loan is used to purchase an annuity that will provide a monthly income. The income is usually fixed, and although paid for life, over time will not be worth as much in real terms because of the effects of inflation.

Part of the income is used to pay interest on the loan, usually also at a fixed rate. The remaining income is for the home owner to use as they wish although the amount they receive as 'disposable income' is likely to be quite low once the interest payments are taken out. The original loan amount is repaid when the property is sold.

This plan is more suitable for older owners; say in their 80s, as the income received from an annuity is higher the greater the age of the home owner. As annuity rates have fallen home income plans have tended to become less popular and relatively few are now arranged.

Example of home income plan
Harry is 80. He takes out a home income plan for £45,000 with a fixed interest rate of 6.5% and this plan buys an annuity. After mortgage interest of £243.75 and tax are deducted, each month he gets an additional, disposable income of £270.

Ten years later he dies and his house is sold. Harry has repaid a total of £29,250 in interest. The lender gets back £45,000 after the sale of the property plus any administration charges. The remaining amount from the house sale passes to Harry's beneficiaries.

Source: *FSA Factsheet – Raising money from your home, March 2007*

Shared appreciation mortgages/ Property appreciation loans
Shared appreciation mortgages (SAM) are less common than the other forms of lifetime mortgages in the commercial field, although they have been the basis of some innovative non-commercial products in recent years. In return for a loan secured against the home owner's property the lender takes a share in any increase in the property's value when it is sold, instead of receiving interest.

Example of a shared appreciation mortgage
Joan takes out a shared appreciation mortgage for £45,000. She is not charged interest, but instead agrees that the lender will eventually get back the original loan and 60% of any increase in the value of the home since the scheme started.
When Joan dies, her home has increased in value by £120,000. The lender gets £45,000 + 60% of £120,000 = £117,000 in total. The remainder passes to her beneficiaries.

Source: *FSA Factsheet – Raising money from your home, March 2007*

The shared appreciation mortgage is similar to a reversion in that the returns to the lender (and cost to the consumer) depend on house price movements. The difference is it does not involve a sale of equity, rather it is based on a loan. Typically the lender will advance 25% of the value of the property, interest free in exchange for 75% of the appreciation of the property when the borrower either sells or dies.

For example, a house is worth £100,000. The individual borrows £25,000 but pays nothing more until they sell or die. If after 10 years the house is then worth £160,000 (4.8% p.a. growth) it has appreciated by £60,000. The equity release company is owed the £25,000 borrowed originally, plus the shared appreciation – the substitute 'interest' - of 75% of £60,000 (£45,000) a total of £70,000.

So the owner borrowed £25,000 and repaid £70,000 10 years later. That is a cost of around 10.8% per annum; over double the house value growth rate. This is an expensive loan but the risks are taken entirely by the lender, who is effectively investing in a rent-free property. If the house went up by more, the amount owed increases too.

Examples
House value: £100,000
Interest free loan: £25,000 (25%)
Percentage of future value increases sold to lender: 75%

So, if the customer lived in the house for 20 years after taking out the mortgage, and then died, and it was sold for £100,000, the amount due to the lender would be £25,000 (annualised interest rate 0.0%)

If it were sold for £200,000, the amount due to the lender would be £25,000 + 75% x £100,000 i.e. £100,000 in total (annualised interest rate 7.2%)

If it were sold for £300,000, the amount due to the lender would be £25,000 + 75% x £200,000 i.e. £175,000 in total (annualised interest rate 10.2%)

Products based on property appreciation have been controversial. The benefits for the consumer are that no payments are required while they are alive and they can retain a proportion of the value of the property. The perceived disadvantage is that the effective rate of interest may be higher than the market rate if house prices rise. But this may not be unreasonable considering the lender is accepting a greater risk than with a normal loan and house prices may of course fall, as they have been during 2008 in many areas.

Long Term Care Insurance

One use of equity release in which there is considerable interest is to fund care in later life. At its simplest equity can be drawn upon to pay for care as needs arise although there are surprisingly few products that adequately address the requirements of someone wanting to stay at home who needs a varying amount of domiciliary care or support. The best bet currently is a lifetime mortgage with a flexible drawdown facility from a provider who also allows smaller sums to be drawn. We return to this issue in the concluding chapter.

There is however a small market for using equity to purchase care insurance. Buying a long term care product can be an effective way of Inheritance Tax planning and use of equity release for those who fear they will need higher levels of residential care.

If a local authority places an older owner in residential care they are under a duty, subject to various caveats, to seek to recover the cost of the care from the individual's assets, including their home. This is a well known source of resentment amongst older people. The authority has the power to place a legal charge on the property to ensure recovery of fees on eventual sale. Thus equity funds care.

Some local authorities operate a Deferred Payment Scheme on a discretionary basis. This is a relatively simple arrangement whereby local authorities take a charge on the home of an older resident but do not require older homeowners to sell their homes so as to pay for residential care until after their death. It relates to situations where a relative is still living in the home or where rental income can be used to pay for some of the costs of residential care.

Pre-funded Long Term Care Insurance
At the time of writing only one company continues to offer Pre-funded Long Term Care Insurance as little interest has been shown by consumers. The product is purchased as insurance against ever needing care. A regular monthly amount or lump sum, which could come from releasing equity, is paid to an insurance company and this guarantees a monthly payment for care for the rest of a person's life once the individual meets the claim conditions.

The insurance is normally payable when:

- The insured is unable to perform a given number of Activities of Daily Living (ADLs), usually with the use of assisted devices/ special equipment if required, and needs the assistance of another person when they perform the activity or
- The insured is suffering from a cognitive or mental impairment

The following are standard definitions of ADLs:

- Washing – the ability to wash in the bath or shower (including getting in and out of the bath or shower) or wash by other conventional means
- Dressing – the ability to put on, take off, secure and unfasten all garments and, as appropriate, and braces, artificial limbs or other surgical appliances
- Mobility – the ability to move around indoors from room to room on level surfaces
- Transfer – the ability to move from a bed to an upright chair or wheelchair and vice versa
- Feeding – the ability to feed oneself food which has been prepared and made available
- Toileting – the ability to use the lavatory or manage bowel and bladder function including the use of protective undergarments or surgical appliances if appropriate

For an additional premium the sum can rise with inflation rates. It is usual for the plan to be reviewed after a period of, 5 or 10 years and it may become necessary to pay a further lump sum to continue to receive a payment large enough to cover care costs. Typical features of the policies include:

- The level of cover is selected by the individual at the outset
- Premiums can be paid on a regular basis or by a single, lump sum payment
- Individual cannot claim until the selected number of ADLs are unable to be performed
- Can have limited payment periods – say two or three years
- Have a waiting period of normally 13 weeks before paying out but can be as much a 52 weeks
- Payments received by either the insured or the care provider are not subject to income tax

Immediate or Deferred Care Plans
These are annuity based products. In return for a lump sum payment they give a monthly payment to a registered care provider for the rest of a person's life. They are taken out when a person's health is failing.

There are two types of care plan available; immediate care fees and deferred care fees. As the titles suggest, the difference is in the period of time before the policies pay out. With the deferred plan time before pay out can be between 1 and 5 years and can be chosen by the individual taking out the plan to suit. If an individual requires care at once or is already receiving care then an immediate needs care plan is more suitable. Both types of plan can be inflation linked for an additional premium and both can have a capital protection element which will give a return if the individual were to die early on in the plan but this will mean a higher initial premium.

If the payments are made direct to a registered care provider income tax is not payable. However, if care is no longer needed, the plan will convert to an ordinary annuity with an income and capital element. The income element may be taxed depending on the individuals' financial position. The annuity can pay for residential care or care received at home.

At the time of writing there are very few providers that offer care fee plans and the premium paid to providers vary, as each company has their own way of assessing life expectancy.

It is possible to change care providers but this must be notified to the company providing the annuity as they will need to ensure the new care provider is willing to enter into a contract.

Conclusion – commercial products and care

A recent study of options for financing private long-term care gives a concise conclusion of the present use of equity to fund care:[1]

- Insurance plans designed to cater for the cost of care in later life have not been popular. As a result, most insurers have now withdrawn from this market
- Investment based plans have failed to maintain protection levels and have now also been withdrawn from the market
- Annuities specially designed to fund care fees and which recognise reduced life expectancy do provide a solution for some, but access to advice at a time of crisis may be difficult
- Equity release or lifetime mortgages are popular but are not being used as a way to fund care
- The current pensions 'crisis' bears many of the same hallmarks as those relating to long term care planning
- As with the Pensions Commission Report, there does not appear to be one single solution to the problems surrounding long-term care. A combination of measures may be more likely to succeed

For providers and organisations interested in supporting people at home or in extra care settings where funding for some form of domiciliary care is required, lifetime mortgages with flexible drawdown seem the most relevant commercial product currently available.

[1] Options for financing private long-term care (S. Johnstone, JRF, 2005)

4. Non-Commercial Market and Soft Loans

Over the last 10 years there have been renewed attempts to develop equity based products to help income poor, but (relatively) asset rich older owners and some other vulnerable people, who would not normally be able to get loans on reasonable or affordable terms. The providers are mostly utilising some element of subsidy to make deals affordable and do not operate for profit and are thus referred to here as "non-commercial". This section looks at these products and how they work.

What does non-commercial mean?

The characteristics of what is non or sub-commercial lending are:

- Non-Commercial Market and Soft LoansProvided by a not for profit organisation – this might be a Community Development Finance Institution (CDFI) or there may be a link to a housing association, local authority or similar voluntary or public sector agency
- Charges paid by customer do not necessarily meet all resource costs; these include cost of information, advice and support as well as any loan repayments. The extreme example is an interest free loan
- An element of subsidy from the public purse and/or occasionally from charitable funds
- Smaller loans can be obtained – the commercial market typically requires at least a reasonable minimum, say £10,000, is drawn initially but with non-commercial lending much smaller loans, say £1,000 are available. (A few commercial companies are beginning to offer products with lower initial drawdowns but will for example expect the total drawing over a period to reach a set minimum)
- Typically there is support throughout the process from initial information and advice through to help in carrying out whatever activity the loan was taken out for, particularly in relation to repairs and improvement work or re-housing.
- Only available to those who are unable to obtain commercial loan products or could not afford them
- Provided only for a particular purpose – typically home improvement or repair

Non-commercial loans for improvement and repair

The Regulatory Reform (Housing Assistance) Order 2002 gave local authorities the ability to develop different approaches to helping less well off owners to adapt or repair their property. This prompted a shift from grants for improvement to loans. Interest in providing smaller loans, usually under £15,000, on terms that will be acceptable to 'cash poor' owners has grown because of the targets set to reach a 'decent homes' standard in the private sector and the scale of the problem. These loans are normally provided by local authorities, commonly in conjunction with one of these specialist agencies providers, on a non-commercial basis i.e. partly subsidised.

Definition of 'Decent Home'
A 'decent home' meets the current statutory minimum standard for housing; is in a reasonable state of repair; has reasonably modern facilities and services; and provides a reasonable degree of thermal comfort.

The thinking in introducing the Regulatory Reform Order was that grants would continue to be available but people would be encouraged to take out 'top up' loans. There was some expectation that loans could replace grants and the private sector would enter the market. Thus far major lenders have not entered the market on any scale and one of the roles of the not for profit providers is to demonstrate that this lending is sustainable and that costs and risks are manageable.

In 2007 CLG published a detailed evaluation by DTZ of these emerging 'soft' loan products. This section draws on this (Loan finance to improve housing conditions for the vulnerable, CLG, 2007). Before describing the actual products we consider how these loans are obtained.

Sources
DTZ differentiate between local, regional and nationally available products. They found:

- 23 local authorities offering loans often in partnership with Home Improvement Agencies (HIAs) who play a key role in engagement, advice, guidance and project management. This is likely to have grown and in some cases the link is with a housing association. Guiness (Northern Counties), for example, works with 11 local authorities on equity loans
- A small but growing number of regional initiatives such as ART Homes based in the Midlands and Wessex Reinvestment Trust in the South West
- A few national services like Home Investment Trust and the HouseProud scheme

The researchers underlined that vulnerable owners may require intensive support throughout the process. This can be expensive. The cost of support can be as much as the eventual loan!

They concluded:

"In order to address the needs of vulnerable owner occupier delivery models need to be locally based at the engagement end and, at least, regionally based at the loan using end" (to get economies of scale given the limited volume of borrowing).

And

"The key issue for delivery partnerships is perhaps not the availability of capital sums but rather labour, supply and associated resources to effectively raise awareness, engage people and maintain effective and appropriate contact to help see the process through".

A survey of householders with low disposable income who might be candidates for an improvement loan found they thought loans for this would be unattainable, unaffordable and bad value for money. Key requirements to persuade them to take out a loan to improve or repair their home were:

- Very low or no monthly repayments
- Capable of being carried on until sale or death
- Does not make excessive charges i.e. low interest cost

Not surprisingly the most attractive loan is an:

- Interest free secured loan – effectively 'free' money so only available if public funds are used to subsidise. Some local authorities present this as a 'revolving' or 'repayable' grant and do not charge interest or take a share of future appreciation

The second most attractive is:

- Property Appreciation Loan (PAL) – the fact that there are no monthly re-payments makes them attractive although the 'real cost' of borrowing at the point of sale or death is uncertain

Some commentators have argued that PAL is the main product local authorities should adopt to achieve property improvement. The key challenge then is for local authorities to attract private capital and negotiate with banks for public funds to be replaced by private.

Products
There are two types of loan:

- Those that require regular re-payments
- Those that do not because either the loan is interest free or the debt accumulates until the property is sold.

There are five main types of loan available to vulnerable owner occupiers, as with commercial products. Using DTZ terminology and classification these are:

1. **Capital and interest repayment** – A traditional mortgage. Equal monthly payments spread over the life of the mortgage, say 25 years, cover both the interest and part of the original amount borrowed over a fixed term. The loan and interest is secured by a legal charge on the property. Initially repayments are mostly interest and a tiny amount of capital. In later years more capital is repaid and the interest element is less
2. **Interest only** – Only the interest is payable each month, until the property is sold. The original loan (the capital) is repaid when the property is sold in one lump sum rather than bit by bit
3. **No service (capital and interest rolled up)** – This is commonly known as an equity release loan. No regular repayments are made; hence the term 'no service'. The original amount borrowed and the accumulated interest, which is secured by a legal charge on the property, is deducted from the proceeds when the property is sold
4. **No service (property appreciation linked)** – This loan is similar to the Shared Appreciation Mortgage. The original amount borrowed is secured by the lender as a share in the property. The percentage share equates to the loan e.g. £20,000 of a £100,000 property gives a 20% stake. When the property is sold, the lender gets the agreed share of the proceeds. So it is increase in property value that the lender gets back instead of interest. This product consequently has a higher degree of uncertainty and risk for the lender. The London Rebuilding Society 'equity swap' scheme discussed below is an example
5. **Interest free** – This is a purely non-commercial loan. The original amount borrowed, and in some cases an administration fee only, is registered as a charge on the property and deducted from the proceeds when the property is sold. In specific circumstances a number of local authorities also, or instead, offer small (less than £3,000) unsecured, interest free loans.

With non-commercial loans what happens is that the public purse provides some or all of the resources so that only part or none of the cost of borrowing falls on the householder thus creating cheaper loans.

In addition DTZ say *"some providers assert that an interest free loan, where none of the costs of borrowing are passed on, represents the lowest cost option for the provider as well as the borrower and that this factor has influenced their introduction. However this raises questions as to their sustainability, particularly in the context of other conflicting priorities and spending reviews".*

The relative costs of these products can be illustrated via the following example used by DTZ:

- The house is worth: £100,000
- The amount left to pay on their mortgage: £0
- Amount borrowed: £15,000
- The interest rate is: 6.5 per cent per annum
- The property increases in value by: 3 per cent per annum

Table 8: Illustrative example, total cost of borrowing

	Over 5 yrs	Over 10 yrs	Over 15 yrs	Over 20 yrs
Capital and interest	£18,000	£20,900	£24,000	£27,200
Interest only	£19,900	£24,800	£29,700	£34,500
Rolled up interest	£20,600	£28,200	£38,600	£52,900
PAL	£17,400	£20,200	£23,400	£27,100
Interest free	£15,000	£15,000	£15,000	£15,000

Figure 1

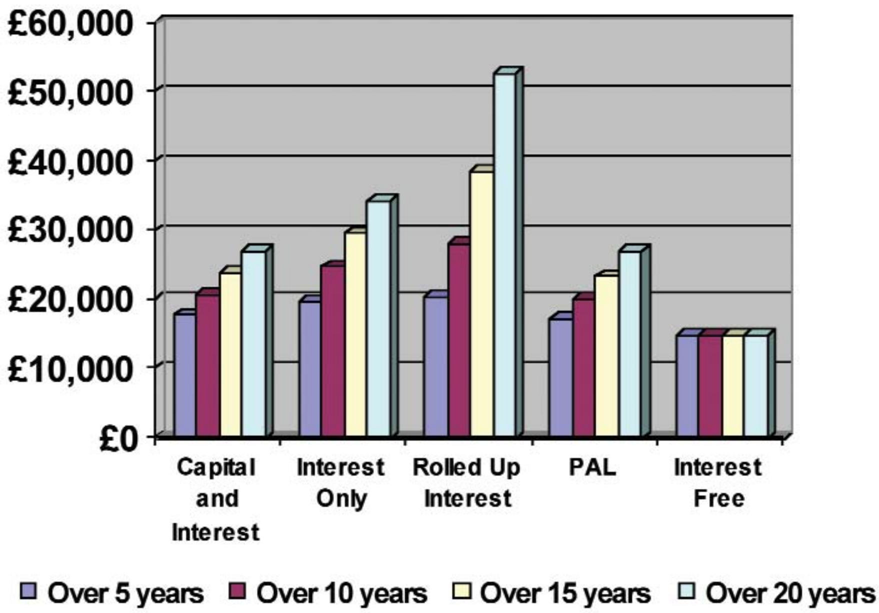


Table 9: Illustrative example, monthly payments

	Over 5 yrs	Over 10 yrs	Over 15 yrs	Over 20 yrs
Capital and interest	£301	£174	£133	£113
Interest only	£81	£81	£81	£81
Rolled up interest	–	–	–	–
PAL	–	–	–	–
Interest free	0	0	0	0

Table 10: Illustrative example, house price growth

	Over 5 yrs	Over 10 yrs	Over 15 yrs	Over 20 yrs
House Price	£116,000	£134,400	£155,800	£180,600

Rolled up interest is always likely to be the most expensive way to borrow (relatively) in terms of the overall cost of borrowing because of the compounding effect of interest, followed by interest only, then capital and interest, with interest free being least expensive to be borrowed by this measure. The PAL loan cost depends on house price movements and is less predictable.

Non-commercial organisations and products in practice

There are a handful of examples of established regional or national non-commercial providers seeking to help older owners and disabled people improve, adapt or maintain their property using soft loans and related mechanisms in the way DTZ commends.

This section details and compares five of these:

- Home Improvement Trust
- Regenda
- ART Homes
- Wessex Reinvestment Trust
- London Rebuilding Society

The premise behind most, possibly all these organisations is that:

- Small loans to low income home owners are uneconomic in nature
- A partnership between the private and public sector is required
- A subsidy from the public purse is necessary
- Many vulnerable people will need practical support and advice to use the loan

Table 11: Caomparison table

	Regenda	Wessex Reinvestment Trust	London Rebuilding Society	ART Homes Part of Mercian Housing Group	Home Improvement Trust
Area Covered	North West, linked Housing Associations, Midlands,	West Country	East London	Midlands, Edinburgh and Carmarthenshire	England, Scotland and Wales
Products • Target Market	Those in financial need, supporting regeneration	Older, low income home owners for financing home improvement/ repairs	Older, low income or disabled home owners	Low income home owners, by referral of strategic housing authority partners only	Older home owners over 60 and disabled home owners or home owners who live with a disabled person
Products • Type	Home Improvement Loans Relocation loan	Home Improvement Loans	Equity 'swap'	Repayment mortgage Interest only mortgage Property Appreciation Loan (PAL)	Capital and Interest Interest Only Interest roll-up
Terms • Interest free • Low interest • Capped	Capped interest rate (currently at 6.5% - Oct '07)	Capital and Interest repayment Interest only Interest and roll up	In return for a percentage of the equity in a property, home owners receive a package of repair, maintenance or improvements. There are no repayments.	Property Appreciation Loan is the most popular product. Loan amount is judged as percentage of property value and when paid back is at same percentage of current property value	Loan providers are regulated banks and building societies who agree to offer competitive terms and a no repossession guarantee even on the capital and interest mortgage and interest-only mortgage
Limitations • Minimum amount • Maximum amount • Over 75	Relocation loans are only given to those living in clearance areas and funds gap between new and old property, allows lump sum repayment Home Improvement Loans are generally paid off when property is sold, but do allow one lump sum repayment.	Minimum borrowing £1,000, maximum £15,000. Interest only, only available to over 66 year olds and is currently at a fixed rate of 3% with no arrangement fees and can be paid up anytime without penalty Interest and roll-up only available to over 71 year olds	Home owners must live in Newham, have equity in their property, live in property that is unfit, have low or no income, and/or be disabled or a carer for a disabled person	Repayment mortgage for home owners who would find it difficult to access high street products but can afford monthly payments typical interest rate 1.5% above Bank of England base rate Interest only as above but for people who have less disposable income	Minimum borrowing £3,000 and maximum of 55% of property value
Notes		Not 'legal charge' against property, instead 'equitable charge[2]'. Similar schemes are now appearing, in some areas loans may be topped up by local authority grants		PAL does not require monthly repayments made, No interest charge is levied, can be repaid at any time without penalty, and have no repossession guarantee.	Recommends council approved trades people through Houseproud scheme Reduced cost legal service available Homeowners have access to technical advice and advice on eligibility to grants

[2] Equitable charge – where the loan is secured against the property but there is no automatic right of possession upon default. Wessex will wait for the capital and interest to be repaid, as it will when the property is eventually sold. It is against the ethos of Wessex to demand repayment and all defaults are treated sensitively

Home Improvement Trust

The Home Improvement Trust (HIT) offers a service known as 'HouseProud'. It operates nationally, working in partnership with lenders, local authorities, and HIAs to offer a range of equity release products to home owners over 60 to fund improvements and repairs carried out through HIAs. It usually works in conjunction with the local council who promotes the service.

The Trust offers three types of loans:

- Capital release loan – a rolled up interest mortgage
- Capital and interest repayments loan – an ordinary mortgage
- Interest only loan

These are mostly funded by the Dudley Building Society. The HouseProud scheme was first developed with Birmingham City Council following the Regulatory Reform Order on Housing Renewal (2002) and growth of equity based loans as an alternative to grants. Half of HIT loans are interest only and a quarter capital release and a quarter regular repayments of interest and capital.

Local authorities joining the scheme pay HIT £10,000 per annum for a period of two years towards the running costs of HIT for the service. They also undertake to pay £500 in respect of each loan arranged by HIT, as a contribution towards the costs incurred by the applicants in obtaining a mortgage, which includes legal and valuation fees and other associated costs. HIT will facilitate the provision of information, by way of literature, visual aids, and the training of those involved in administering the scheme. The scheme also provides a confidential freephone call centre and Helpline facility for applicants and their families.

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

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

The local authority also accepts responsibilities in relation to the work to be undertaken with the finance raised, although these responsibilities will generally be discharged through their local HIA. They will ensure that applicants are advised in respect of the works that appears to be required to their properties. They will recommend good quality builders, and see that the repair, improvements and/or adaptations are inspected to ensure satisfactory completion, which will allow payments to be made to contractors. These inspections will generally operate in accordance with procedures that would have been used in relation to grants.

Regenda Loans

Regenda Loans is based in Bolton and operate in the North West. They are linked with several housing associations in the area and are continuing to expand working in partnership with local authorities.

Originally, Regenda Loans was a consortium of three housing associations who joined up with Rochdale Council to look at new ways of funding repairs and improvements for private sector home owners. The loan products replace grants for this kind of work. They are intended for people who cannot get, or afford commercial loans or for those affected by clearance.

As a result, two loan products were created; Home Improvement Loans and Relocation Loans. Both loans are classified as Shared Appreciation Mortgages.

Home Improvement Loan

The cost of the improvements needed is costed and this amount is calculated as a percentage on the post-improvement value of the property and set as a legal charge against the property.

When the property is sold, Regenda takes from the sale price the percentage owed (which includes any increase on that percentage of the property value). Interest is capped at 6.5% so that if property values rise very quickly the client is not unduly penalised if the loan is repaid earlier.

Regenda will also give an additional, interest free loan to cover unforeseen works identified which must be completed after a building contract has started.

Relocation Loan

This loan is only currently for people living in clearance areas. It is designed to help people buy a more expensive property in a different area by lending enough money to bridge the difference in price between the old and new property.

The loan is registered as a percentage of the home owners' new property's value. No repayments need to be made until the property is sold. When the property is sold, the percentage including any increase in value on that percentage is paid back to the loan company. Regenda says it is willing to develop other loan products for local authorities if required.

Art Homes

ART Homes is a specialist, not-for-profit provider that also works in partnership with local authorities. ART Homes Ltd offers financial assistance to home owners who are unable to obtain affordable finance from high street banks and building societies.

ART Homes was set up in 2000 by the Aston Reinvestment Trust (a pioneering Community Development Finance Institution) with support from Birmingham City Council and private sector funding. The original aim was to provide affordable loans for home maintenance and repair to owners unable to access finance in the usual way from banks and building societies and where grant aid was not available. Such loans are judged to be uneconomic by mainstream institutions. The social and strategic housing potential of this was considered significant and in line with government policy. The Regulatory Reform (Housing Assistance) Order was again the driver for the expansion of ART Homes.

In 2003, ART Homes was transferred to Mercian Housing Association becoming a wholly owned subsidiary within a group structure. Mercian saw the opportunity to integrate ART Homes Ltd with their existing services to develop and offer a comprehensive package of cross tenure housing solutions. The first major loan fund was established in October 2003 with a £1m contribution to a Property Appreciation Loan fund from Birmingham City Council. There are now loan schemes in operation with 13 local authorities in the West Midlands, the North West of England, Scotland and South Wales.

The ART Homes Ltd model mixes public subsidy and private funding to provide affordable loan and equity release products for repairs and improvements, and for relocation from clearance areas:

- **Interest and capital repayment loans** at below market interest rates (currently 1.5% above Bank of England base rate) for those who can afford some capital repayment even though they cannot raise a normal mortgage
- **Interest only loans** at below market interest rates, where the capital is rolled up and repaid when the person moves or dies and the property is sold
- **Property Appreciation Loans** where the loan is secured against the property but with no capital or interest repayment until ultimate change of ownership
- **Faith loans** (for people whose faith does not allow them to pay interest, including Muslims) have been explored and in many cases, the PAL is considered acceptable and Sharia compliant.

All loan packages are based on individual circumstances and an assessment of needs, affordability and suitability, following a referral from the local authority; an independent financial adviser has often already looked at the case and ascertained that open market products are not suitable. The needs assessment identifies the gap between the value of the current home and the desired new property. A guarantee of no repossession is provided on most loans. Legal and valuation fees are usually covered by the referring local authority. ART Homes Ltd is authorised and regulated by the Financial Services Authority to both advise and recommend their own and other mortgages, and also authorised by the Consumer Credit Act for secured lending not considered mortgages.

The PAL is the most frequently used product for both home improvements and re-location. It is designed for home owners who are unable to afford regular monthly repayments. Most clients need too much money and have too little income to borrow on the open market (either for repairs or to move). The legal charge (for the amount lent) is taken on a percentage of the property value, and the same percentage is repaid when the property is sold or there is a change of ownership (plus a small fee for the independent revaluation).

The loan can be repaid at any time, subject to a new revaluation. If the property value does not increase, or falls, then the original loan amount (and revaluation fee) is repayable. ART Homes Ltd aims to ensure that no-one borrows more than 80% of the property value.

The ART Homes PAL:

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

Research funded by the Housing Corporation found that outright home ownership was the preferred choice of most home owners in clearance and renewal areas (Delivering decent homes in the private sector, Mercian Housing Association, 2005). Detailed interviews showed that most people of all ages looked on shared ownership or renting as a backward step. Most, especially those who already owned their property outright, did not want to have to start paying rent.

There were some older owner-occupiers who said they would be happy to give up the responsibilities of home ownership and move to rented housing. Normal shared ownership models were found to be less flexible and in some cases less affordable. Respondents preferred the PAL model because they could borrow as little or as much as they needed, and make repayments at any time. With Homebuy they had to borrow a fixed 25% and had to pay it all back at the same time.

Case study – PAL Loan

Mr and Mrs Singh lived on a housing estate in Liverpool which became part of a large regeneration project. They were in their 60s and wanted to remain home owners and move to another area, but they could not see how they could afford to do so. Houses in the new area were more expensive and they were retired, in poor health and on a low income. The council put them in touch with ART Homes and they took out a PAL loan to buy their new house which they expect to remain their home for life.

	£'s
Market value of old home	67,500
Home Loss Grant from the council	6,750
Existing mortgage to be repaid	0
Total funds available	74,250
Price of new home	98,000
Funded by	
Funds from existing home	74,250
Own funds/savings	0
PAL loan from ART Homes	23,750

Source: *ART Homes Ltd*

Other new Community Development Finance Institutions (CDFIs)

There has been a growth in recent years in CDFIs. Two of the most recent entrants to the non-commercial market are:

- Wessex Reinvestment Trust – operates in a predominantly rural area providing smaller loans for home improvement
- London Rebuilding Society – is based in London and has created what they describe as an ‘equity swap’ product (a form of PAL) to assist equity rich, cash poor owners to tackle disrepair or adapt homes. This is really a form of PAL

The Housing Association Charitable Trust report *“Adding more than value”*, (HACT, 2007) describes the role of these two programmes which the charity has supported.

Community Development Finance Institutions

CDFIs are independent sector, not-for-profit, financial institutions that provide capital and support to individuals or organisations. Some are charities, some are companies and may describe themselves as ‘social enterprises’. They lend, invest and provide business support in disadvantaged communities, deprived areas and under-served markets that cannot access mainstream finance. They aim to generate financial returns as well as beneficial social outcomes. They will provide working capital, bridging loans, property and equipment purchase, start up capital, personal loans and back to work loans. In 2005 CDFIs loaned £180 million and had lent money to over 18,000 businesses or people. The sector is growing.

CDFIs are financed from both public and private sources (e.g. corporations, individuals, religious organisations). Community Development Tax Relief (CITR) is a scheme set up by the government which offers a tax incentive to investors in accredited CDFIs.

One example of a CDFI is South Coast Money Line. It is funded by District and City Councils in the area around Portsmouth, Barclays Bank and various housing associations and trusts. South Coast Money Line was initiated by Portsmouth Housing Association. It is governed by a board of directors. Other examples of CDFIs are the Prince’s Trust and Charity Bank.

The Community Development Finance Association (CDFA) is the trade association for Community Development Finance Institutions (CDFIs). The CDFA is a non-profit organisation, funded mainly by banks and the Department of Trade and Industry. It has 67 members, and represents the majority of the CDFIs in the UK.

Wessex Reinvestment Trust (WRT)

The organisation

Formed in 2002, Wessex Reinvestment Trust was the first rural CDFI but evolved to work with 11 partner local authorities including some in urban areas. It provides Home Improvement Loans to ‘vulnerable’ home owners who cannot afford to borrow commercially to pay for work required to achieve basic ‘Decent Home’ standards. This is one part of a wider community business.

The Trust operates in the South West. The first distinguishing feature of the way Wessex Reinvestment Trust is funded is that it works in partnership with 11 local authorities who all part fund the service, as well as referring clients.

The authorities collectively bid to the Government Office for the South West who provided a loan fund of £2.6 million. An additional £0.5 million of private finance has also been negotiated. By November 2007 from 400 referrals, 160 loans had been drawn down with an average loan of £4,900 with a further 90 cases being processed.

The local authorities pay an annual subscription that allows the Trust to employ three loan advisors who work closely with each applicant, the local authority and HIA, supporting them throughout the process.

Products
There are three types of loan available up to a maximum of £15,000. Interest is pegged at 3% so not a commercial rate. The difference between the rate paid by the client and the true cost is met by the local authority making a payment at the start of the loan, equivalent to a further 3% over the period of the loan. This is the second unusual feature of the Wessex Reinvestment Trust arrangements.

The three products are:

- **Capital and interest repayment loan** – Repayable at a fixed rate of interest over a fixed term. Interest is charged at 3%. Repayments made monthly by the client by standing order.
- **An interest only loan** – The client only repays interest not capital. The capital is repaid upon sale of the property in the normal way for each type of product. Interest remains fixed at 3%. The local authority up front payment is calculated by assessing the client's life expectancy using actuarial tables. The product is only available to clients aged 66 or over.
- **An interest roll-up loan** – This product allows the client to roll up interest so that there is no monthly repayment. This will provide for the lowest income home owners who do not have sufficient disposable income to cover even the interest on their loan. Instead, they will repay capital and compounded interest when the property is sold or from their estate. This option is only available to clients aged 71 or over.

The third special feature of the Wessex Reinvestment Trust products is that loans are secured by an Equitable Mortgage or Equitable Charge. Wessex Reinvestment Trust says:

"These instruments do not provide an automatic right of possession, as would have been the case if a standard Legal Mortgage was used. However, this security allows us to register our interest at the Land Registry and we are content to be patient for repayment rather than pursue formal recovery through possession proceedings. It would not be cost effective and would certainty not fit with our ethos of helping to keep people warm and safe in their own homes"

The relative cost of the different products is shown in the table below based on borrowing £15,000 over 10 years.

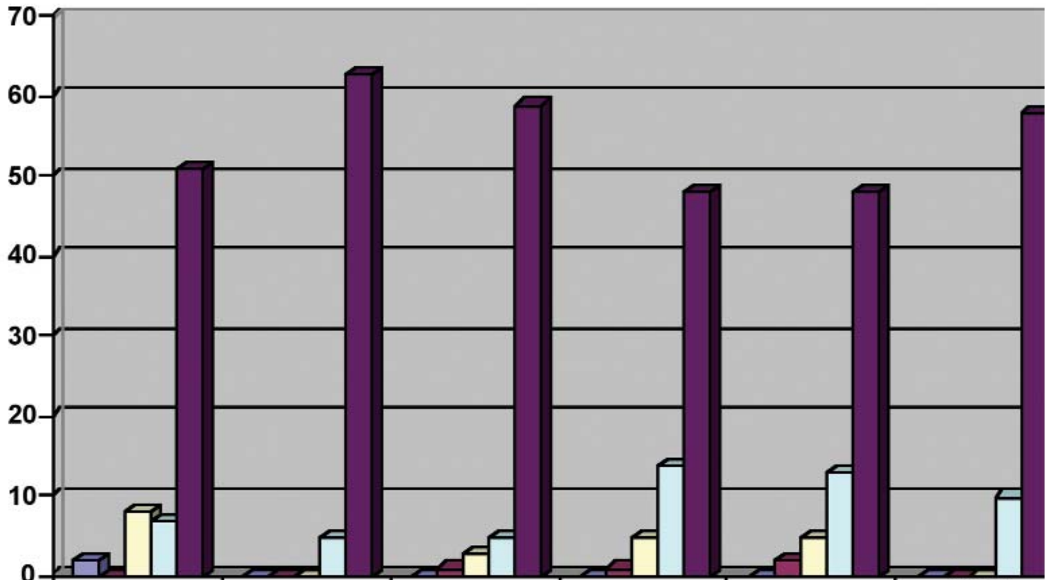
Table 12: Relative cost of borrowing

	Monthly payment (£)	Total cost of borrowing (£)
Capital and Interest	144	17,380
Interest Only	37	19,500
Rolled Up Interest	0	20,158

No arrangement fees are charged.

The 'product' really includes all the help and support. Satisfaction with this aspect of the service is monitored through customer surveys and can be seen to be high in the table below; 86% of clients rate the service as *"excellent"*. The care taken with funding is reflected in a negligible default rate of 0.6%; only 1 loan.

Satisfaction survey results to April 2007



	Promptness	Explanation	Suitability	Efficiency	Effectiveness	Overall Satisfaction
1 = Poor	2	0	0	0	0	0
2 = Below Average	0	0	1	1	2	0
3 = Average	8	0	3	5	5	0
4 = Good	7	5	5	14	13	10
5 = Excellent	51	63	59	48	48	58

Wessex Reinvestment Trust Case Study
"When I first met her, Mrs T opened her door and asked me to jump over the hole that had appeared in her flooring. It turned out that all the floorboards in her house were rotten, and there were holes all over her floor. Mrs T is 72 years old and had to be careful when walking around the house, in case the floor collapsed and she ended up in the cellar.

On top of that, the wiring in her home was 60 years old. All the plaster had fallen off the walls in the downstairs room so that you could see the original brickwork. Holes had appeared around the windows and doors which meant they were insecure and they let in the cold.

We arranged a Wessex Home Improvement Loan, alongside a local authority grant to rectify the problems. All the works have now been completed and the home has been redecorated. The house looks completely different and the client is thrilled with all the changes – most importantly, she is now safe and warm".

London Rebuilding Society

London Rebuilding Society (LRS) is also a Community Development Finance Institution which targets the most socially deprived, financially excluded and hardest to reach communities in the seven East London Renewal Partnership Boroughs.

LRS piloted a home improvement scheme aimed at vulnerable, low or no income home owners first in the London Borough of Newham, where high proportions of older people live in some of the very worst housing stock in the UK. Some of their homes are unhealthy and dangerous e.g. cold, damp or structurally unsound.

The scheme has two strands. First, practical assistance to decide on what improvements to make and how they are paid for, then practical help through every stage of the improvement or adaptation which includes for example, home surveys, affordable maintenance packages, encouraging welfare benefit take-up and improving energy efficiency. Second, a range of novel equity release based facilities.

The project wanted to develop equity-based loans, enabling vulnerable home owners to use the equity within the homes to pay for their repairs or home improvements. These are targeted at low-income home owners, many of whom are unable to access other financial products because the poor condition of their properties meant that they would not be eligible for standard mortgages and/ or could not afford to pay for independent financial advice.

The core LRS scheme is based on equity reversion; 'equity swap' is the term used by LRS. By swapping a percentage of their equity, a home owner receives the resources to carry out the repairs and improvements required plus a structured package organised on their behalf by LRS.

The package of services includes:

- A survey and inspection
- An ongoing maintenance service package to take and keep the house to Decent Homes Plus Standard, initially the maintenance is for a period of ten years
- Help for the clients to take full advantage of grants available to them to improve their homes, such as Disabled Facilities Grants and Warmfront grants, which could reduce the amount of equity the home owner needs to swap

- Developing long term relationships with home owners based on trust
- A simple mechanism for the release of further equity to buy more home improvements and possibly other services

Because the scheme is a swap and not a loan, there are no monthly repayments and there is no effect on means-tested benefits. The swap is not repaid until the home is sold. LRS say:

"We think of our product as a social investment and a package of services that seek to meet people's needs".

Case study (part 1)

"When Dot's estranged husband died, he left the house to their daughter. The mortgage had been paid off. As a result of personal circumstances, Dot and her daughter had to move into the house. It should have been a stroke of good fortune. But it wasn't. There was no gas. There was no electricity. There was no water. For four decades, the house had fallen into a state of disrepair. Window frames were rotten. Panes of glass were broken. There was no back door. If you stood in the kitchen, you could see the toilet pan in the bathroom above. So Dot and her daughter used the outside toilet. They cooked on a two-ring camping stove. They used candles for lighting. They used the local baths to have a shower.

As the house was privately owned, there was little the council could do. So Dot contacted Age Concern. And Age Concern put her in touch with London Rebuilding Society. Its equity reversion scheme enabled Dot to swap a percentage of her equity in return for a structured package of home repairs and improvements. She didn't need an income to qualify for the loan. She doesn't have to pay off the swap until the house is sold. And her receipt of the loan had no impact on any of her means-tested benefits. As a result, Dot and her daughter are now living in an energy efficient, warm, dry, safe and secure home."

Source: *London Rebuilding Society*

LRS is in the early stages of development. The potential is thought to be considerable. Early clients have not only been older people but those with mental health problems or learning disabilities. LRS is supported financially by an 'Invest to Save' grant, the local authority and several charitable trusts.

LRS has been focussed on Newham, an area of high deprivation and housing disrepair. The cases are often complex involving vulnerable people with care or support needs as well as significant housing problems. LRS are concerned to demonstrate their investment improves property value and they have provided the following example that demonstrates how the scheme works in practice.

Case study (part 2)

An independent valuation commissioned by LRS in July 2006 valued the house at £190,000. At the same time, properties in the street, in good repair, were being sold for £230,000. However, the valuation of £190,000 reflects the market value of the property with due consideration to its non-decent condition. In this case such was the disrepair and needs of the family, that the Trustees of HBOS on a visit to the property immediately agreed a grant of £45,000. This is in addition to the equity swap.

The investment:

HBOS Charitable Foundation	£45,000
LRS investment	£55,698
Total investment	£100,698

After improvements the house was valued at £272,500.

As a non-decent property, the house value was depreciating relative to the value of properties in the street. LRS assumed that if no improvements were made to the property, then the value of the property would grow at only half the rate of the House Price Index (HPI) of decent homes. The HPI at the time was 8% per annum.

The likely HPI of the property over 5 years up to 2012 without any investment was judged to be half (4%).

Pre investment:

LRS valuation (2006)	£190,000
Estimated HPI 8% (50%) (over 5 years)	4%
Future market value	£231,000

Post investment:

In the space of 6 months (the time between pre valuation and post valuation after works), the value had increased to £272,500.

Value pre investment	£190,000
Value post investment	£272,500
Change in value (as a monetary amount)	£82,500
Change in value (as a percentage)	30.27%

LRS takes a 20% share of the equity based on this valuation.

LRS investment	£55,698
Value post investment	£272,500
Equity holding (as a percentage)	20.43%

The equity split between LRS and the home owner today is:

Value of property post investment	£272,500
LRS equity share at 20.43%	£55,698
Home owner equity share at 79.57%	£216,802

RSLs and equity release for older people

Housing Associations have historically provided a limited amount of purpose built housing for older people to purchase, most obviously through different forms of shared ownership and shared equity in sheltered and extra care housing. Two mechanisms exist for releasing equity for specific purposes.

First, the collection of sinking funds and possibly also service charges may be deferred until the property is sold. The amount due comes from the sale proceeds. The attraction from the perspective of the older owner is that these costs come from their capital rather than their limited disposable income. There are various formulae for calculating contribution to sinking funds on this basis, related to period of occupation, value of property and a percentage contribution based on a life cycle costing or similar calculation.

Second, in certain extreme hardship cases it is permissible to allow owners to staircase down with the Recycled Capital Grant Fund being used to finance the re-purchase of shelves by the RSL. The resources released are to be used to fund necessary repairs.

Although not designed or presented explicitly as equity release schemes this is in effect what both these examples are.

This section has explained how non-commercial equity release schemes have been developed and looked at the work of five leading non-commercial agencies operating on a national or regional basis to help older or other vulnerable people improve their housing.

The next chapter looks at how a family's equity can be used to provide more suitable housing for a disabled relative. This is still a relatively novel and restricted market.

5. Third party equity

What is third party equity?

Use of housing equity to fund social care or achieve more suitable housing is commonly thought of as only of relevance to older people. This is too narrow.

Third party equity in this context means the use of equity not to provide social care or better housing directly for the owner but to use equity in a property to assist a third party. The third party is normally a relative; typically a son, daughter, grandson or granddaughter.

This section reviews the possibilities for utilising third party equity in this way.

A range of equity based models have been developed to assist people with:

- Learning disabilities
- Physical disabilities
- Mental health problems

The reason why they have grown up in relation to these needs groups is because about 60% of all adults with a learning disability are supported by relatives in the relatives' home. Around seven out of ten of these families are home owners with equity. In later life older carers in particular become very concerned about the long term security of their son/ daughter or other close relative. (*Learning Disabilities: The fundamental facts*, Mental Health Foundation, 2001).

In order to secure suitable housing some are willing, or indeed keen, to finds ways of investing in alternative housing. If resources are sufficient they are also interested in mechanisms that can protect their assets into the future in order to fund an element of support or care. A characteristic of this field is that:

- Limited amount of capital – perhaps itself freed up by some form of equity release including simply trading down, can lever in significant additional resources to acquire or improve a property
- It often appears that sharing the equity with an RSL (or similar charitable or voluntary housing organisation) as in a shared ownership or Homebuy type scheme has additional financial and practical benefits for a disabled person or someone with mental health problems

The models have primarily been developed in the learning disability field but the same principles apply to the other needs groups. The number of adults with enduring mental health problems supported by a relative in their home is less; possibly one in seven but the figures are uncertain. It is thought about 400,000 relatives look after an adult with mental health problems[3].

The aims of the equity holder (parent or other relative) are to:

- Use their equity to fund suitable housing and/ or care
- Protect the asset
- Make the equity transfer in such a way as not to financially disadvantage the recipient (son/ daughter or other relative) by taking them out of benefits or stopping the care/ support package being funded by the local authority.

[3] Mental Health; The fundamental facts. Mental Health Foundation, 2007.

There are a number of ways of achieving this.

Models of third party equity

Discretionary Trusts
A Discretionary Trust is one of many forms of Trust but is usually the relevant type for people with learning disabilities. (There are other types more commonly used with those with mental health problems). Three defining features of a Discretionary Trust are:

- The Trust is administered by Trustees who have **discretion** over how the assets of the Trust are used
- The primary intended beneficiary has no **right** to either the capital or income of the Trust
- There is a **'class' of beneficiary** of the Trust of whom the intended beneficiary is a member e.g. people with Downs Syndrome living in England and not a sole, named, beneficiary

In a properly drawn up Discretionary Trust with these characteristics, assets belong to the Trust not to the (disabled) individual. As a consequence assets held this way do **not** compromise entitlement to welfare benefits or rights to a care package.

The Trust is normally created through a will on the death of the last surviving owner of the property concerned[4]. The will contains a few pages bringing the Trust into existence. The property (or its value i.e. the equity) passes to the Trust. The Trustees can then use this asset to:

- Acquire a property outright or on shared equity terms (see below)
- Fund care or support – although this may not be necessary where the individual meets the conditions for receipt of care and support following an assessment by adult social care.
- Fund other things the intended beneficiary may want from time to time that the state will not provide

The settlor (person putting property into the Trust) can put additional funds into the Trust or conversely only a proportion of their property value. It is also possible to establish a Discretionary Trust before death and put assets into the Trust earlier or indeed buy another property and put that into the Trust.

If additional funds are put in this provides a pot from which to fund on-going management and maintenance.

In this model the Trust is the landlord. It may let the property to others in addition to the primary beneficiary who may be able to claim Housing Benefit to pay a rent if they are eligible.

[3] It is possible to set up a Discretionary Trust at any time. This may be a sound course of action where there are other relatives who may want to leave assets to a disabled individual. Rather than doing this directly the funds are given to the Trust.

This is the first simple example of using third party equity to acquire more suitable housing.

Mike
Mike lived in a large residential care home in Scotland. His parents established a Trust and on their death the family home became an asset of the Trust. The Trustees found it difficult to agree what to do for the best for Mike. One Trustee was a solicitor but also a family friend. The Trust was being used to provide things like periodic trips to Gracelands.

Mike got a group of his friends and the trustees together and asked them what he should do. One of his best friends said "It's really boring being here… move" This decided Mike. He now lives in a new-build house on an estate purchased by the Trust. The plan is eventually he will share the house with one or two friends. The house is managed by the Trustees.

More details of how Discretionary Trusts work and may be used can be found in *Discretionary Trusts; a guide for families*, Nigel King, FPLD, 2004.

Inheritance
In the case of these three vulnerable needs groups it is possible to use relatives' equity to provide long term housing in just the same way as anyone else – via direct inheritance.

We bring this area into sharper focus here because the family home, particularly for 60% of people with a learning disability, is also their own home. It is inevitable given the demographics and the level of home ownership that increasingly people with learning disabilities will become direct home owners. This equity transfer first, relieves the local authority (or other agency) of the cost of providing accommodation (albeit there maybe a maintenance cost to be met). Secondly, it gives the disabled person an equity stake which they in turn may wish to use.

Direct inheritance on the parents' death is straightforward. As no contract is involved even the most severely disabled who are judged not to have sufficient legal capacity to contract for a property can inherit.

Gerwyn
Gerwyn has Downs Syndrome. He inherited a two bedroomed terraced house in South Wales on the death of his parents. Also a keen fan of Elvis Presley. He says *"This house is mine, all mine"*.

Purchase and gift
Occasionally parents have sufficient free assets to buy a property outright for a relative. They may gift the property to another organisation – typically an RSL in return for an on-going management and maintenance service, and some undertaking to endeavour to ensure the relative is properly housed for the rest of his/ her life.

Disposal of lease

A variant on this theme is to dispose of a lease of the owner's home to another organisation; again typically a housing association. This approach can be combined with other strategies as the example below illustrates.

Family Jones

The family decided with their daughter that the best long term plan was for the daughter to continue to live in the family home. The daughter has autism spectrum disorder and it was very important she stay in a familiar property and neighbourhood.

They sold a 21 year lease to a local housing association. Because there was a sitting tenant, conditions attached to the disposal and a short lease the value was much less than an open market, vacant possession value.

The parents moved out. Using the modest amount of equity released along with other savings they bought a smaller house nearby just for themselves.

The daughter did not wish to live alone. The housing association got a major repairs grant from the Housing Corporation to re-model the property so it could be let to three people but be suitably adapted for them. They pay rent to the association.

On the expiry of the lease the property will revert to a Discretionary Trust which has been established for the benefit of people with autism; including the daughter.

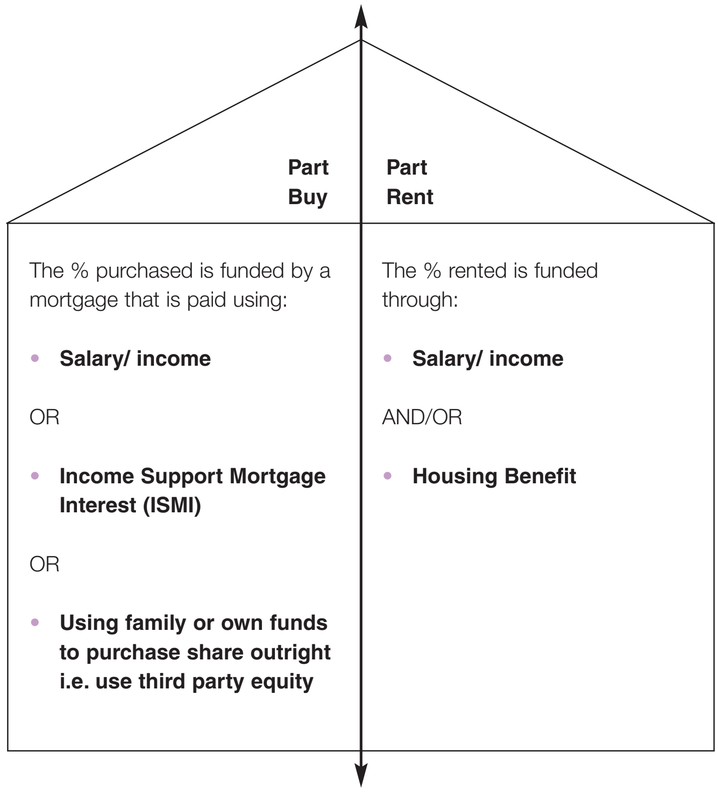
Shared ownership

The Housing Corporation supports a variety of shared ownership and shared equity programmes delivered by RSLs currently promoted under the title 'Homebuy'. There is an element of subsidy in each.

A few imaginative RSLs and other (mostly) charitable housing and care organisations have created purely privately financed models usually financed by family. Key features of shared ownership are:

- Part buy, part rent
- Buy whatever share you wish – 25%, 40%, 70% (Maximum 75%, minimum 25% in the traditional Housing Corporation models)
- Share ownership of equity with another organisation (do not share property with another person unless wish to)
- Housing Benefit payable on rented part
- Housing Benefit can meet reasonable management and maintenance costs provided lease makes landlord responsible for maintenance

Figure 2: How shared ownership is funded by the purchaser



There is a Housing Corporation programme specifically designed for disabled people: Home Ownership for people with long-term disabilities (HOLD). Third party equity may be used to help buy the disabled person's share.

There are two fundamental financial attractions of shared ownership:

- Families/ individuals can choose housing on the open market in a way that allows them to tailor what equity they put in (within limits) to what they can afford
- Part of the cost of a loan on the balance for disabled people who qualify can be met through Income Support Mortgage Interest (ISMI)

The essentials of the ISMI system are summarised in the box below. Provided the claimant is eligible for Income Support, disabled and in need of alternative accommodation more suited to their special needs as a disabled person, additional Income Support can be paid that will meet the interest costs on a mortgage up to £100,000. In September 2008 the Government announced the limit is to increase to £175,000 from April 2009.

This is one of the keys to the interest in shared ownership. It delivers on many policy objectives (and individuals' wishes) of promoting choice, control and independence. It does so in a way that allows a disabled person to choose a particular, suitable property, in the right location, from a large stock (the owner-occupied sector) and is affordable. ISMI can also fund adaptations.

ISMI

- Up to £100,000 loan (£175,000 from April 2009)
- Only pays interest
- Schedule 3 IS (General regulations) para 4 sub para 9 (SI 1995 No 1613)
- *"Housing cost shall be met in any case where the loan was taken out, or an existing loan increased, to acquire alternative accommodation more suited to the special needs of a disabled person than the accommodation which was occupied before the acquisition by the claimant"*
- Paragraph 8 says: *"(1)…new housing costs to be met in any particular case are: a) where the claimant has been in receipt of income support for a continuous period of 39 weeks or more an amount – determined in the manner set out in paragraph 10 by applying the standard rate to the eligible capital for the time being owing in connection with a loan…"*

Because funding from the Housing Corporation has been limited, housing associations have found other ways to fund special needs shared ownership. The schemes are structured in the same way as the schemes with Housing Corporation grant but the grant is replaced by another funding source that equals approximately one third of the value of the property.

In this model families may release cash from the family home via a re-mortgage (for example if they don't have sufficient free assets) in order to purchase a share in a second property for their relations to live in.

In family funded shared ownership the capital grant from the Housing Corporation (or interest free loan element under Homebuy) is replaced by an equity loan from the disabled person's family (or a Discretionary Trust) to the developer organisation. The developer could be a housing association or a charitable organisation that includes housing in its objectives.

The illustration of how family funded shared ownership works below is drawn from Advance Housing and Support Ltd who have now completed 400 properties for disabled people of whom 100 have enduring mental health problems.

Table 13: Example – family funded shared ownership (£s)

	1	2
Mortgage	72,000	100,000
Developers private loan	12,000	26,000
30% family investment	36,000	54,000
Total cost of property	**120,000**	**180,000**

Shared ownership allows the benefits of ownership to be obtained in a way which matches the equity stake that can be afforded. For vulnerable people the ability to select the right type of property in the right location for them can bring great benefits. It is a good option for one or possibly two people but is not normally thought of for larger groups although one organisation, Progress Care, has recently launched a model which sells leases to individuals forming a larger group who share.

In April 2006, following a Government review of Low Cost Home Ownership promoted by the Housing Corporation, a new range of HomeBuy "products" were launched.

- Social HomeBuy – enabling social tenants to buy a share in the property they rent and live in
- New Build HomeBuy – to help people buy a share in a newly built dwelling
- Open Market HomeBuy – enabling people to buy a property on the open market with a limited equity loan rather than the social housing grant subsidy

During the process of consultation, representations were made to the effect that some of the changes proposed could disadvantage disabled and other vulnerable people preventing them accessing these low cost ownership arrangements. In response a variant of the mainstream programme was introduced, Home Ownership for people with Long-term Disabilities (HOLD).

This programme allowed the flexibility of New Build HomeBuy including an element of social housing grant, to be applied to ordinary street properties. This means disabled people can continue to acquire any property on more affordable shared ownership terms and thus have a wider choice of property type, area, size, location – all of which can be particularly important to the quality of life of a more vulnerable person.

Key features of HOLD are:

- Individual can find own home on open market – new or second hand
- Provider housing association purchases and sells on a share
- Purchaser buys between 25% and 75% of equity
- Rent is charged on the equity retained by the association up to 3% of the value
- Buyers must purchase maximum share they can afford
- Right to staircase up in 10% tranches
- Lease can put maintenance obligation on landlord
- ISMI may fund interest on a mortgage up to £100,000
- If individual eligible Housing Benefit may meet costs of portion rented

Few associations offer HOLD although the Housing Corporation invited bids in all regions to provide HOLD in the 2008-11 programme and 19 received funding to provide 250 properties over 3 years.

There is a modest programme of mixed tenure, extra care housing for older people part funded by both the DH and Housing Corporation and delivered by housing association. The for sale properties can include shared ownership based on SoE. This model has not been thoroughly reviewed for 20 years. There may be a role for shared equity/ ownership for older people in ordinary housing provided an extra care type service is available

Joint ownership
It is common for a married couple or partners to buy a property with a mortgage jointly. They become 'jointly and severally' liable for re-payments. In legal terms it is equally simple for up to four people to be joint owners.

In this model relatives combine their equity to buy a larger, better or more suitable property than they could otherwise afford by pooling resources.

The joint owners then let the property to their relatives or indeed to other people who may wish to share.

Three families
The sons and daughters of three families had become close friends over time getting to know each other at a Day Centre in a south coast city.

Aware of the limitations of care homes in the area and also their increasing age they clubbed together to purchase and adapt a property in a residential area of the city. Each resident has a bedroom and there are two bathrooms.

Adult Social Care were involved throughout and purchased a care package for the group of residents from a charitable care provider. The property is managed on behalf of the joint owners by a local housing association.

It is possible to be joint owners of a shared ownership property.

Company ownership
This is also a method of combining resources but more suitable for a larger group. Typically the families will become the initial shareholders and Directors. They purchase a suitable property, or in a few cases a plot of land on which to build. The cost of each share approximates to the cost of a unit. A popular built form is a small block of self-contained flats with some communal space. In this case because they are self-contained the properties may be sold or rented from the Company which becomes the landlord.

The attractions of the company approach are:

- In forming a company all the participants have to think through what they are doing, how the company will operate in practice
- It is a legal entity so has a life beyond that of any of the original Directors/ family investors
- It can borrow – thus building beyond the initial equity investment although lenders may seek guarantees. This may be one of the aspects of using the families' existing equity – as an asset to back borrowing of a company
- Shares are tradeable

A variant on this has been families forming an un-registered housing association rather than an ordinary private company. If they do this there is the possibility if they wish to do shared ownership, of the individual resident being able to claim Housing Benefit on the portion they rent under current Housing Benefit regulations.

Conclusion on third party equity
This is not an exhaustive list of possibilities but gives an indication of the kinds of approaches people have already used in practice to secure housing using existing equity. There are other variants such as buy to let or using loan stock models. The basic principles are however much the same but it is the technicalities in relation to welfare benefit rules that often prevent vulnerable people using these alternatives.

The main hurdles to these kinds of equity based models are:

- Getting mortgages for claimants who are on benefits. There are relatively few lenders
- Getting the ISMI arranged
- Organising and paying for management and maintenance when the owners have very low incomes and/or are dependent of benefits for everyday expenditure
- Mental capacity can be a problem for some people with learning disabilities and other mental health problems although there are usually ways to resolve challenges helped by the recent Mental Capacity Act
- Lack of knowledge or will in housing associations to utilise these more complex models for individual cases
- Complicated – need knowledge
- Some upfront costs to be met

Where relatives provide some or all of equity required then these schemes are much easier to put in place. The attraction of shared ownership models is that they make it more affordable and possible for relatives to help in a practical way by investing their equity as a third party.

6. Housing Market Renewal Products

Utilising equity in Housing Market Renewal and other areas where homes have to be demolished

There is a range of local, regional and national initiatives to tackle low demand and disrepair in the Midlands and North of England.

This section explains the role of equity and soft loans in these areas. Several of the not-for-profit organisations discussed in section 4 are active in supporting Housing Market Renewal work.

Individual local authorities continue to promote regeneration and tackle disrepair, and some have had well-established programmes. Since the introduction of Regional Housing Boards, there are also regional initiatives covering groups of local authorities. Local and regional programmes focus mainly on repairs and improvements of existing properties, although they may include limited clearance and demolition and they also work in partnership within Housing Market Renewal (HMR) areas. Most areas with low housing demand, and all areas with concentrated severe need, should now be covered by HMR or other government funding administered through Regional Housing Boards.

Definition of Housing Market Renewal
The Housing Market Renewal initiative (HMR) is a 15 year funding programme (from 2002/3) and forms part of the government's Sustainable Communities Plan, aiming to integrate housing, planning and regeneration strategies. There were nine original Pathfinder areas in the Midlands and North of England, with three further areas added more recently. All exhibit housing market weaknesses, often across large areas: empty properties, increasing population turnover, low house prices and, in some cases, neighbourhood abandonment and market failure. HMR areas cross over existing local government boundaries: partnerships involve (among others) local authorities, social housing providers, private house builders, health authorities, police, regional structures (Housing Corporation, government office etc). There can also be crossovers with areas already included in other government programmes, for example New Deal for Communities or Single Regeneration areas, and links with regional programmes such as Kickstart in the West Midlands.

Work in HMR areas includes:

- Repairs and improvement to sustainable housing
- Clearance and demolition in some areas
- New-build mixed tenure housing
- Environmental improvements and new facilities

Example of HMR
The West Midlands Regional Housing Board is funding the Kick Start Project in seven locations. The aim is to reduce the number of homes failing the Decent Homes Standard, especially those inhabited by people receiving means tested benefits and within Housing Market Renewal areas. Services include accessible information on financial schemes, advice on home repairs and maintenance and useful contacts such as approved Quality Mark builders. A team of advisers provides free, impartial and independent assistance.

There are different arrangements to ensure that people get information, advice and sometimes advocacy. Some HMR Pathfinders have actively supported Home Improvement Agencies. Some have developed in-house services: for example, the Homemovers service (Liverpool Heartlands) supports home owners and others affected by demolition with a package of support including a panel of independent financial advisors, home ownership advisory officers, shared ownership schemes, Homeswap (see below) and equity loans for relocation.

There are various 'products' available to help owner-occupiers (including older people and others) either to improve their property or move to somewhere more suitable. This can apply both within HMRs and in other areas where one property, or a group of properties, has to be demolished. In any clearance area, the issue is how to find another suitable property and then pay for it. Home owners are legally entitled to the market value of the property to be demolished, plus a council Home Loss Grant (10% of the property value) and Disturbance Payments (legal and removal costs), but this is often not enough to buy a new home outright because of the low value or poor condition of the property in a HMR area. It is for this reason that special financial products have been developed.

Criteria vary between local authorities but typically, financial help for home improvements is available to home owners (with or without an existing mortgage) who are:

- Receiving means-tested or disability benefits
- Others not receiving benefits on a low income by discretion (often by taking individual cases to a discretionary panel)

And for properties:

- That can be improved within the designated Renewal Area
- Outside the area if home owners meet the income criteria
- Do not meet the Decent Homes Standard

Help is sometimes also available to private sector tenants (and their landlords) for improvements. If an older private tenant has to move because their home is in a clearance area, it is much more likely that they would move into social rented housing. They would be unlikely to buy another property, or enter shared ownership, because unlike owner-occupiers, they would have no equity in the property. Older private tenants in HMR clearance areas are also highly likely to be on very low incomes and without any savings. However, in theory they could access shared ownership or even outright ownership (using the products available to owner-occupiers) if they had sufficient income or capital.

Options for owner-occupiers whose homes are demolished because of clearance include:

- Home ownership elsewhere, using finance from mainstream or specialist providers (see below)
- Home ownership elsewhere with part-ownership by the local authority (see below)
- Homeswap allows a home owner to exchange their property due for demolition at no cost for a similar improved property in an area that is sustainable, typically a previously empty property that was compulsorily purchased and has been refurbished to modern standards
- Shared ownership through one of the Housing Corporation HomeBuy programmes
- Shared Ownership on specific housing association new-build developments which may or may not be part of the regeneration
- Renting from a social landlord, which can raise issues concerning benefits (see below)

Shared ownership or renting will often, but not always, be with a housing association involved in mixed-tenure regeneration, depending on whether or not the household prefers to stay in the area or relocate elsewhere.

Home ownership with part-ownership by the local authority

Relocation grants or loans from the local authority can provide financial support in addition to the statutory Home Loss Payment to allow owner-occupiers to buy another property.

In some HMR pathfinders, where owner-occupiers do not have sufficient equity to buy another property outright, the local authority lends the balance and takes a legal charge on a percentage of the new property value, so that any increase in value is shared between the owner-occupier and the local authority. This appears to have some similarities to the ART Homes model, described earlier. However, there are differences in that the ownership is shared with the local authority rather than being a loan through an independent finance institution.

An information and advocacy service, which works with, and for, older people in one regeneration area explained that they had found some difficulties for older owner-occupiers who have gone from outright ownership of their previous home to part-ownership of a new home. For some, it works well: for example they move nearer to relatives and their new home suits them. But for others there are problems:

- Older people may feel that they are no longer independent
- Because they have worked all their lives, albeit in low-paid work, they may have very small occupational pensions. This means that they have not been entitled to welfare benefits and have had limited or no contact with public services before the clearance proposals
- With part-ownership by the local authority, there are also complications for inheritance because they can no longer pass on the house outright to relatives on their death

Renting from a social landlord: benefits issues

Older owner-occupiers (especially women who live alone) often prefer the idea of social rented housing so that they escape the worry of organising and paying for future repairs and maintenance. However, their capital receipt will probably exclude them from any means-tested benefits and they will also have to pay in full for any personal care and support that they need. They are usually better off financially if they can access some form of shared ownership that is appropriate for their needs, and in some cases (depending on their care needs) the best solution may be a mixed tenure extra care or leasehold sheltered housing development, if there is one, in the right area for them.

The ideal is to find a scheme where varying shares of equity can be purchased. This means they can invest sufficient to reduce savings to the point where they become eligible for various welfare benefits, including Housing Benefit (at £16,000) if the shared ownership scheme rents part. (Many Housing Corporation funded LSE and SOFTE type schemes have no rental income on the unsold equity retained by the Housing Association).

There are other problems concerning older people living in clearance areas who have to move. An advocacy project in one HMR area explained that many of the older people they work with had expected to remain living in their existing homes, rent and mortgage free, for the rest of their lives. In many cases they had planned their lives around staying put, in an area they knew, and had sometimes made improvements to make the home easier to manage in the future. Some had already had to move two, three or even four times because of previous clearance: some of the properties in clearance areas are only 30 or 40 years old. Others know their homes are due for clearance in the future but do not know when, or exactly which streets will be cleared, leading to uncertainty in deciding what to do and when to move.

Some older people find that they have higher running costs after moving into their new homes. Council tax is higher if the new home is in better condition and worth more, but older people with small occupational pensions (the ‘nearly poor’ rather than the ‘really poor’) can find themselves just above the limit to claim Council Tax Benefit. In most new developments, owner occupiers have to pay a management or service charge and they are unhappy that they have to pay whereas this is included in the rent (and covered by Housing Benefit) for those who are renting.

This applies not just to sheltered or extra care housing but also to many new, private developments with unadopted roads or landscaped communal areas. In one example, an older person was now paying £150 a year management charge (for roads and communal areas) and over £350 a year more in council tax: on a low fixed income, having to find an extra £10 a week (£500 a year) is a struggle for her.

While the financial products and processes can enable people to move, the financial burden on poorer owners forced to move is not always fully compensated for in existing arrangements with the HMR. There are both initial and on going cost implications.

Case study – upfront costs and continuing care
Owner occupier moving to new development – annual costs

Old property	**3 bedroomed house**
Council tax	£550
Electric	£210
Gas	£550

New property	**3 bedroomed house**
Council tax	£932
Independent gas transporter	£42
Estate management fee	£150
Ground rent	£100
Gas	£182
Electric	£288

“In order to accommodate the upfront costs of solicitors, fees, carpets and curtains, it was only due to the fact that I could call upon my family for financial assistance that I could move into my new property.

This whole process has been a struggle to get appropriate and accurate information in order for the move to take place. I am now paying an extra £374 per year, which has not reflected any increase in my pension/income, which will undoubtedly leave me poorer and more financially excluded than prior to the Compulsory Purchase Process.”

Other issues include:

- Older people in late 70s to 90 moving without carpets and curtains
- Having no help to pack or unpack for the move
- No support for older people to install and fit fixtures to their home
- No clarity to the amount payable for fixtures and items left in the old property
- Inconsistency of information processes overall
- No access/referral to on-going support for older people to ensure they had a smooth transition into their new property

The Audit Commission comments on the problems faced by marginal owner-occupiers in HMR areas, many of whom are older people:

"Without ongoing assistance they will not be able to live in decent conditions. Group repair improvement schemes are being carried out within some pathfinders but local authorities now have considerable discretion about their private sector renewal policies and many have chosen to proceed on the basis of loans rather than grants, although finance for this approach is limited … there is an issue with the capital that is tied up in providing loan support that will only be paid back in the long term. … The provision of private finance is a potential way forward here. However, this is an area of lending which is not currently popular with the financial services industry and generally requires an intermediary agency of which the most developed is ART Homes. However, for that agency to be able to lend, it requires substantial capital input from the local authority or other organisation. While regional housing boards have assisted greatly in this respect, the current situation is unsustainable and cannot deal with the scale of the problem. It is incumbent on local authorities to meet decency standards for vulnerable people in the private sector but their capacity to do so is limited by the lack of appropriate financial arrangements." (Housing Market Renewal Annual Review 2005/06, Audit Commission, 2006).

Appendix 2 provides further information on the tax and benefits position.

7. Conclusion

Things the research tells us

- There are now plenty of commercial products that utilise equity to fund everything from a better home to care. The membership of Safe Home Income Plans organisation has grown from around four, fifteen years ago to 23 members covering more than 90% of the commercial equity release market. The commercial products are also more secure in that most offer guarantees of no negative equity and no repossession
- As the FSA observed in a recent review (Finance in and at retirement – results of our review, FSA, 2007) innovation in product design is taking place:
    - Greater flexibility in the equity released, notably drawdown products that allow consumers access to funds when they need them rather than requiring them to take a lump sum
    - The ability to take smaller upfront sums
    - Products offering enhanced rates for those with impaired circumstances; and
    - The ability to protect a share of the equity for beneficiaries
- There has also been growth and innovation in non-commercial products particularly through CDFIs. In most cases the products are intended to help repair, improve, adapt or maintain property. They cannot be used as widely and flexibly as commercial offerings; shared appreciation loans are more common place in the non-commercial market.
- Delivery mechanisms are important, particularly for smaller loans to vulnerable people. This includes informing people, giving them advice and then supporting then to take up the loan. Practical help is essential
- Not surprisingly interest free secure loans are the most popular non-commercial product. But the take up is very small because these are only available in very restricted circumstances through social lenders
- The scale of lending of small loans to vulnerable people is unlikely to attract commercial lenders. They are looking for both bigger volumes and overall amounts of lending. Also the transaction costs involved in dealing with vulnerable people and small amounts of money make it an uneconomic proposition. The Joseph Rowntree Foundation is currently exploring ways of batching small loans together to make lending more attractive to commercial lenders
- Non-commercial lending depends fundamentally on an element of public subsidy although it has sometimes been possible to lever in limited amounts of private lending to enlarge the programme
- There are benefits from a regional approach to lending. The DTZ report concludes *"In order to adequately address the needs of vulnerable owner occupiers, delivery models need to be locally based at the engagement end and, at least, regionally based at the loan issuing end… this appears to be the most efficient approach"*
- A key issue for delivery is partnership. It is also again as the DTZ report says *"not the availability of capital sums, but rather the labour supply and associated resources to effectively raise awareness, engage people and maintain effective and appropriate contact to help see the process through"* that's critical
- Deep suspicion of equity release products remain, but also people are not always well informed on the current range of products and the better security that they provide
- Attitudes to inheritance are changing. People are now more open generally to the idea of using equity to fund life style or even possibly care needs in later life. In both the commercial and non-commercial market a priority for releasing equity is to fund home improvements
- Products need to be simple and comprehensible if they are to be attractive, particularly to vulnerable, older people and disabled people
- Despite the large number of products available there are additional products being investigated, mostly to meet very local circumstances and needs. Non-commercial lenders have been innovative and are willing to develop additional arrangements if required

- Equity release arrangements that produce a supplement to income can adversely affect welfare benefits for those with low incomes even if the purpose is to fund care or obtain more suitable hours. The complexity of the benefits system and possible consequences for social care funding tends to make Independent Financial Advisors reluctant to confidently recommend equity release to less well off clients. FSA rules require people are advised against equity release if it would lead to a loss of benefits
- For some disabled people in particular, various shared ownership models can offer a very good way of getting affordable and suitable housing. Families seem willing to contemplate using their equity to help vulnerable relatives obtain secure housing. This is a small market still under developed.

Can equity fund care costs?

Policy makers (as well as individuals) are interested in using equity release products to meet the costs of social care for older and possible other vulnerable people. This is against a background of a large increase in the number of older people who will require some level of care or support later in life. So what is the position?

- Most of the commercial equity based arrangements described can in principle be used to fund care. However as shown right at the start in Table 1 few people choose to use available products in this way
- Those products that provide a cash lump sum, by virtue of increasing savings or offering an income, may have the effect of taking an otherwise quite poor older person out of benefits or disqualify them from Social Care funding
- A few products in the care insurance and residential care field make payments directly to care providers and may have less impact on the individuals financial position

There are however a host of other reasons for reluctance to use equity to fund care ranging from the philosophical and cultural to practical details of the arrangements, lack of knowledge, quality of advice:

- The **non-commercial** products described are generally designed to meet property not personal care costs and are therefore not suitable or available as a vehicle
- There are a few products specifically intended to meet the costs of residential care. Some take account of health and 'impaired life' to give more generous payments. A source of specialist advice is NHFA. **www.hsbcpensions.co.uk/nhfa/pages/index.asp**
- Policy and practice is to reduce reliance on more institutional forms of provision and as far as possible offer people the opportunity to continue to live in their own homes, adapted if necessary, with suitable care and support. Announcements in December 2007 on an expansion of Direct Payments and Individual Budgets in the form of personal budgets are a manifestation of this.
- But as Terry and Gibson note *"There appear to be no commercial or non-commercial products specifically designed to help with the costs of personal care at home where the costs are not met by the local authority or for domiciliary care"*
- The kinds of products that may be suitable include:
  - A 'reverse mortgage' whereby instead of a large loan being taken out to buy an house and then repaid in equal instalments over 25 years, the individual receives equal monthly payments and gradually reduces the amount owned.
  - An 'equity swap' arrangement similar to the arrangements operated by London Rebuilding Society but based on small tranches of equity being 'swapped' with the lender in stages rather than a large swap to meet large repair bills at the outset
  - A flexible, drawdown, lifetime mortgage arrangement whereby the amounts drawn can be in small amounts and vary according to needs so that if care costs increase so can the draw

Final thoughts on care and equity

The lack of equity release products designed to fund care at home, including in an extra care setting, seems in part to be due to the complexity of linkage with tax and benefits.

For the better off self-funder, releasing equity to fund care may result in greater tax liability. In the case of an annuity based product like an immediate care fees plan, where payment is made directly to the care provider additional tax is avoided. This also applies to payments to a registered domiciliary care provider. But if the payment is made to the self-funder then there could be a liability for income tax. Claims made on an insurance based product can be paid to either the care provider or the self-funder without income tax liability.

For the less well off who may rely now or in the future on either state benefits or the local authority for social care funding there are several considerations:

- Releasing equity may in some arrangements be considered deliberate deprivation of assets thus the individual will be treated as though they still possess the asset
- Releasing even modest amounts of capital may result in savings going over the savings thresholds for the relevant benefit; Pension Credit and in the case of shared ownership, also Housing Benefit, may be removed or reduced
- Payments treated as income may also take the recipient out of benefits
- Appearing to have either an income or capital may remove the local authorities liability to fund social care

In circumstances where Equity Release is taken as a regular draw-down against the value of the property in amounts below the Income Support or Pension Credit thresholds then it should not affect such means tested benefits.

One solution would be the equivalent of a ‘One Account’ (as suggested by the Nursing Home Fees Association) whereby the individual is given an overdraft facility up to a predetermined limit depending on age and property value. They would then be permitted to increase this overdraft through spending which is secured on the value of the property. As a debt it should not be treated as capital or income in a means test for benefits or care.

The complexity of all these and uncertainty over how in particular local authorities may treat different equity release products has made even Independent Financial Advisors who are experts in the field reluctant to provide advice to clients because of the risk of being found, in the event, to have given misleading or inaccurate advice or because of the adverse effect on benefits.

It is estimated there are over 2 million older home owners who have housing equity in excess of £50,000 but incomes sufficiently lean to qualify for benefits (Housing rich, income poor; the potential for housing wealth in old age, S Sodha, IPPR, 2005)

One proposition from Terry and Gibson (op. cit) is that older people should be able to draw up to £3,000 per annum from their equity for care or property repairs without affecting their benefits. The figure seems modest in relation to costs of care or indeed, even repairs. It is derived from the limit on gifts the better-off can make without affecting their liability to inheritance tax. The Joseph Roundtree Foundation is currently exploring how this idea might be put into practice. One stumbling block is lack of interest by commercial providers in arranging such relatively small loans where the fee element would look disproportionately large. A second is the possible impact on benefits.

Appendix 1 Regulations

Since October 2004 mortgage providers, including providers of lifetime mortgages, have been regulated by the Financial Services Authority (FSA). This means that financial advisors advising on mortgage products must have appropriate qualifications and if the advice is found to be incorrect or inappropriate the consumer has legal redress.

However, it was not until April 2007 that Home Reversion Schemes have come under the same regulations.

To become authorised by the FSA to provide equity release schemes companies must:

- Have staff with the necessary skills and knowledge
- Give you clear information about certain services that they provide
- Give you good quality advice
- Only recommend products that suit your circumstances
- Give you a ‘keyfacts’ document regarding the products that you are being advised on

A financial advisor must tell the client whether they are:

- A single-tied agent – of one product provider (or an appointed representative)
- A multi-tied agent – of a limited range of product providers
- Or an independent financial advisor (IFA) with access to the whole of the market

Additionally, on initial contact with the client the financial advisor must provide a private customer with an Initial Disclosure Document (IDD) and a fees and commission statement (sometimes known as ‘the menu’). These documents give the basic information about the company’s status, services that they provide and how the services will be paid for.

The FSA will investigate any complaints made against authorised companies, and the Financial Ombudsmen Service will intervene if a dispute cannot be resolved. Compensation may also possible through the Financial Services Compensation Scheme if the broker being dealt with stops trading.

A financial advisor will provide general information to their client and then following a full assessment of the client’s current financial situation and aspirations, will give advice on specific products suitable for the client based on the information provided by the client.

The FSA website is **www.fsa.gov.uk**

Appendix 2 Effect of Equity Release on Tax

This appendix sets out our understanding of the basic tax position. Individual advice is recommended.

Personal taxation

The three main taxes that can affect the home owner are:

- Income Tax
- Capital Gains Tax
- Inheritance Tax

Income Tax
If an equity release product is used to provide an income, the home owner should be aware that the income will be liable to tax if it brings their income above their personal allowance.

The allowances for 2008-09 are:

Table 14: Allowances for 2007-08

Type of allowance	Age	Allowance (£)
Personal	Under 65 years	6,035
	65 -74 years	9,030
	75 years and over	9,180
Married couples allowance	Born before 06.04.1935 but aged under 75	6,535
	75 years and over	6,625
Minimum amount of married couples allowance		2,540
Blind persons allowance		1,800

To calculate an income tax liability it is necessary to:

- Add up all taxable income
- Apply any deductions
- Subtract the personal allowance applicable to the individual
- Apply the marginal bands of tax – up to 40%

The marginal bands of income tax are:

Table 15: Marginal bands of income tax

Marginal rate of income tax	Band (£)
22% - basic rate	0 – 34,800
40% - higher rate	Over 34,800

Capital Gains Tax
Capital gains tax (CGT) is levied on disposal of assets but a private residence used exclusively for owner-occupiers is exempt. Therefore, provided the property used for equity release is a residential dwelling then there is no liability for CGT.

Inheritance Tax
Inheritance tax is levied on two elements of the estate of a deceased person:

- The value of the estate at the date of death
- Chargeable transfers made to third parties during the lifetime of the deceased person

If a property has been used as security in an equity release scheme then the value of the estate will be reduced by the total sum owed to the lender. This will be the capital owed but depending on the product may also include rolled up interest, a share in the appreciation of the property and/or fees and charges payable on redemption of the mortgage.

For home reversion plans, part or all of the property already belongs to the reversion provider on the death of the customer. The part of the property transferred to the finance provider does not form part of the estate.

Appendix 3 State Benefits and Equity Release

State benefits

A home owner who takes equity from their property either as income or as a lump sum can have their entitlement to state benefits affected. This is because several benefits are means tested on savings and income including:

- Income Support
- Pension Credit
- Council Tax Benefit
- Funeral Payment – a one off payment to defray some or all of the costs of a funeral if people are on one of the above benefits
- Disabled Person's Tax Credit
- Invalid Care Allowance

Attendance Allowance, Disability Living Allowance, Severe Disablement Allowance, Incapacity Benefit and Carer's Allowance are not affected by this sort of income.

The main state benefit of interest to older people is Pension Credit. This is described in detail below including how entitlement can be affected.

This is an extremely complex area as is the link to social care and one reason why IFAs are sometimes reluctant to give definitive advice, nevertheless it is an area individuals may need expert advice or advocacy.

Pension Credit – what it is and how it operates
Pension Credit is a means-tested benefit for people aged 60 and over. It has many similarities to Income Support (which it replaced for this age group) but it also has many differences in the detail of its operation.

Pension Credit has two strands: Guarantee Credit and Savings Credit. It is possible to be paid one or the other, or both, depending on income.

Guarantee Credit – you are entitled to Guarantee Credit if; you are 60 or over and you have no income or your income is below the appropriate minimum guarantee.

Savings Credit – you are entitled to savings credit if; you or your partner are 65 or over and you have a "qualifying income" that exceeeds the "savings credit threshold" but which is not too high to produce a nil award.

With both these benefits there are residence and immigration control rules. The way Pension Credit works is illustrated by three examples:

- Case 1 – No income

Mr A is 60. His only income is Severe Disablement Allowance (SDA) of £66.25 per week.

His Pension Credit entitlement will be:

	Per week (£)
Standard Minimum Guarantee (single person)	119.05
Less Severe Disablement Allowance	66.25
Pension Credit Guarantee Credit	52.80

- Case 2 – Couple with a pension

Mr B is 66. Mrs B is 64. Mr B has a retirement pension of £87.30 pw. Mrs B has retirement pension of £60 pw and a private pension of £25 pw

Their Pension Credit entitlement will be:

	Per week (£)
Standard Minimum Guarantee (couple)	181.70
Less total pensions	172.30
Pension Credit Guarantee Credit	9.40

Because they receive some Guarantee Credit they will be entitled to maximum Housing Benefit and Council Tax Benefit if rent or Council Tax are payable.

Their joint income is greater than the "Savings Credit Threshold" for a couple, which is £139.60, by an excess of £32.70 per week.

This gives them an extra entitlement to Savings Credit, which is 60% of this extra, i.e. 60% @ £32.70 = £19.62 per week . Therefore total extra Pension Credit is £9.40 + £19.62 = £29.02 per week.

- Case 3 – Single disabled person with pensions

Mrs C is 74. She lives alone and no one gets Carers Allowance for her. She has retirement pension of £95.00 per week; Disability Living Allowance care component middle rate of £ 43.15 per week (this is ignored for Pension Credit calculations, however it can increase your pension credit in some circumstances by adding a Severe Disability Addition); and private pension of £60 per week. She has £20,000 savings.

Her Pension Credit entitlement will be:

	Per week (£)
Standard Minimum Guarantee	119.05
Severe Disability Addition	48.45
Total Pension Credit Guarantee Credit	**167.50**
Less pensions (DLA ignored)	155.00
Less tarriff income from £20K	28.00
Total income	**183.00**

Therefore, no Pension Credit Guarantee Credit because of excess income. However she will get maximum Savings Credit of £19.05 per week because 60% of her "qualifying income" over the relevant savings credit threshold (£87.30 per week) is more than the maximum available (£19.05 per week)

Note that Pension Credit has different capital rules to Income Support. There is no actual upper limit of capital in Pension Credit, and the tarrif income is less (£1 per £500 or part thereof over £6,000).

Only DLA middle or high rate care component or Attendance Allowance increase Pension Credit levels. Lower rate care or either rate mobility DLA do not affect Pension Credit calculations.

Pension Credit and property costs

Weekly Pension Credit rates are the same whatever peoples' tenure. If people are property owners (e.g. long leaseholders of flats) Pension Credit will help with service charges, compulsory building insurance as an additional housing cost over and above the basic weekly amounts.

If people have mortgage outgoings, then Pension Credit can also help with the interest on these in some circumstances. There are some differences here between Income Support and Pension Credit. With Pension Credit there are no waiting periods to get help if an applicant (or their partner) is 60 or over. If you were able to afford the mortgage costs when they were first taken on and you are trying to find cheaper accommodation, you avoid the usual initial 50% restriction on mortgage costs.

There are also slightly different rules around getting help with a loan you take on during a 'relevant period', ie when on benefits. The usual rule applies that the Department of Work and Pensions (DWP) will help with mortgage interest if the new property is better suited to the needs of a disabled person: however, the definiton of "disabled person" is different. This covers anyone aged 75 or over or someone who would qualify for a disability or higher pensioner premium if they were in Income Support. This has become rather muddied because it looks at premiums which the Pension Credit system basically made defunct. This mainly covers people who receive Attendance Allowance or Disability Living Allowance. The advice for anyone with a disability is to get a DLA claim in before the age cut-off of 65.

The relationship between Pension Credit and Housing Benefit/ Council Tax Benefit can be complex. As with Income Support, if you receive Guarantee Pension Credit (whether or not you have Savings Credit) you will be entitled to maximum Housing Benefit and Council Tax Benefit regardless of your capital. Thus, it is feasible to have many thousands of pounds over the usual cut off point and still get Housing Benefit/Council Tax Benefit if you happen to get Guarantee Credit as well. However, if you receive Savings Credit only, your Housing Benefit/Council Tax Benefit claims will be affected by the £16,000 upper limit, and the Savings Credit will be taken into account as income. Housing Benefit and Council Tax Benefit claims for people aged over 60 have an enhanced eligibility level to compensate for this. If you are not receiving Guarantee Credit, annuity and Home Income Plan incomes are taken into account in full when claiming Housing Benefit/Council Tax Benefit.

There is a concession around Home Income Plans that income from the annuity equal to the interest payable on the loan with which the annuity is bought will be ignored if at least 90% of the loan was made to buy the annuity, the annuity ends on the death of you and your partner, you and partner were at least 65 when the loan was made and the loan is secured on your home. The balance is taken fully into account.

As rehearsed in the main text, there is a significant problem for those on benefits in drawing on equity to fund care or support in that using equity may simply reduce benefits by an equivalent sum. The DWP has recently advised Joseph Rowntree Foundation that:

"Equity release is taken into account in the Pension Credit calculation of both the guarantee credit and the savings credit. Equity release payments may be classed as either income or capital depending on the way it is taken, as illustrated in the following two examples:

- *Contractual payments at defined times will be considered as adding to income. This will be taken into account pound for pound in the calculation of the guarantee credit, but will also count towards the savings credit*
- *A contract that entitles the customer to make drawings on demand at unspecified times will be considered as adding to capital. Extra income of £1 a week is assumed for every £500, or part thereof, of capital above the threshold of £6,000*

The overall impact on Pension Credit will depend on individual circumstances, such as the amount of capital or income someone already has, and whether they are eligible for savings credit"

The implication would appear to be that it is generally likely to be better to have a product that allows for drawdown on demand seeking to keep total savings below the threshold.

At present the Joseph Rowntree Foundation is exploring the possibility of establishing a scheme which allows people to draw small amounts of cash from equity (up to about £300 per annum irregularly to pay for a limited amount of support. The plan is to use this guidance from DWP to avoid impacting a benefit in conjunction with rules on Assessed Income Periods (described below).

Deprivation of assets

A question arises of whether transferring equity out of the property you live in i.e. releasing equity, could be taken as deprivation of capital.

Both Pension Credit and Income Support have the same basic rule that if you deliberately get rid of capital in order to claim or increase benefit, you are treated as still possessing the capital. (Regulation 21 (1) State Pension Credit Regulations 2002 no.1792 for Pension Credit claims).

There has been a lot of case law over the years around this, which essentially says that the desire to get or increase benefit does not have to be the only motivation. If this is a 'significant operative factor' then people can fall foul of these rules even if they had other motivations as well as an eye to benefit entitlement.

Regulation 21 of the Pension Credit regulations says that people 60 or over will not be treated as depriving themselves of capital if they pay off or reduce debts, or they are paying for goods or services and the purchase of those goods or services was reasonable in the circumstances of their case. This specific difference between Pension Credit and Income Support has not been definately decided by Social Security Commissioners, but it seems arguable that any payment for care or service charges should be 'allowable' in the sense that future entitlement to Pension Credit will not be jepardised by payment of bills and reasonable expenses.

Capital tied up in the home you are living in is disregarded for all means-tested benefits, Pension Credit included (Reference for Pension Credit, Schedule 5 para 1A, Pension Credit regulations). There is no obligation to use the asset of the home to create an income where one did not exist before (e.g. by letting out rooms or taking out a Home Income Plan). Therefore, if the notional amount of your own capital becomes less because of a transfer of part of the equity to a third party this should not lead to any problems with deprivation of capital rules. The reason for this is that this specific capital (whatever the property might be worth) is always ignored and so has no effect on means-tested benefits. Therefore, disposing of some or all of the equity should not affect entitlement to Pension Credit. This disregard of capital tied up in your own home also extends for a period of 26 weeks (or longer if reasonable) if you have sold but intend to use the capital to buy again.

How this transfer is effected, however, could raise various matters. If the circumstances of transfer of equity is one that the owner remains in their property and a charge is put on the property to be redeemed at death or sale, then this arrangement should not impact on benefits – there is no accrual or disposal of cash which ceases to be tied up in the property and so could be looked at by the DWP as available. Alternatively, if the property goes into some sort of joint ownership, then the partial deprivation of this asset would not affect benefits because the original asset did not affect benefits in the first place.

However, if owners sell their property to, for example an RSL and remain there under a shared ownership lease then they would run into difficulties with claiming Housing Benefit towards the rental element of the charge. This is because the Housing Benefit rules (Regulations 2006 No 214; regulation 9 (h) say that a person shall be treated as not liable to make payments in respect of a dwelling (i.e. not eligible for Housing Benefit) if: *"he previously owned, or his partner previously owned the dwelling in respect of which the liability arises and less than five years have elapsed since he, or as the case may be, his partner, ceased to own the property, save that this sub-paragraph shall not apply where he satisfies the appropriate authority that he or his partner could not have continued to occupy that dwelling without relinquishing ownership."*

This part of the Housing Benefit regulations is aimed at preventing previous owners disposing of properties and getting Housing Benefit as sitting tenants but would appear to effect anyone who disposes of a property (for an example to an RSL) but remains under a shared ownership lease. Although the sub paragraph has a get-out clause this has not been drawn out by Commissioner's cases and Housing Benefit sections can be often hard to satisfy. The only guidance or comments around this has been from a Commissioner to the effect that being under severe pressure to sell from a mortgagor would be the sort of situation which might lead to Housing Benefit eligibility without waiting for the full five years.

If people move into a new shared ownership scheme then the situation is different and Housing Benefit can become available (subject to the usual Pension Credit/ Housing Benefit/ capital rules).

Assessed Income Periods (AIPs)
These were brought in with the Pension Credit system. AIPs were brought in to make the Pension Credit system administratively simpler and less intrusive (and to encourage take-up). An AIP is a period of usually 5 years when people do not have to keep filling in renewal or new claims. The DWP makes an assumption of retirement income increases over this time and calculates Pension Credit accordingly. If people do receive extra income (whether actual income or notional income from capital) during the AIP it will not usually affect their Pension Credit – although if income drops you can give details and Pension Credit can be increased. For example, you claim Pension Credit and are awarded Guarantee Pension Credit from 1.12.07. On 07.12.07 you win £2M on the lottery. This will not affect your Pension Credit as it is not a circumstance which leads to re-assessment.

There are some flies in this ointment for incomes from equity release plans. If at the point of claim you expect to have a change in your income in the next 12 months, the DWP will not offer an AIP, or may just do a short one, and check back later. AIPs can stop in certain circumstances. The most likely one would be if one member of a couple dies and so the survivor ceases to be a member of a couple; conversely if a single person becomes a member of a couple; or the amount of your Pension Credit is superseded, for example by decrease in capital or reduction in other retirement income. An idea of getting an equity release income for a time then stopping it before your AIP comes to an end has been floated. However this might open the door for the DWP claiming the person has deprived themselves of income, in the same way they can for deprivation of capital.

Costs of long term care and deprivation of assets

About one in six people are expected to enter long term residential care. Those who have the means to pay for long term care are expected to use their own resources. This means that a person who owns a dwelling but who has no other significant assets and is placed in a home by Social Care will almost certainly have to sell their house to pay for residential accommodation and care. Local authorities have a duty to seek to recover the cost in relation to people they place in care, subject to various safeguards regarding other relatives or partners living in the property.

Local authorities may seek to recover charges from any property owned prior to entering a care home. Therefore, the potential need for long term care is an important consideration for the home owner releasing equity. A person selling a property (or a stake in it) may be considered to have deliberately done so in order to avoid having to meet the cost of care.

A local authority is entitled to look back as far as they wish to decide whether deprivation of assets has taken place. The factors that will be taken into consideration are:

- Evidence that the individual once owned the asset
- Has deprivation occurred i.e.
  - A lump sum payment given to somebody else
  - Assets transferred into Trust
  - Title deeds of the property transferred to someone else
  - Unusual expenditure of a high amount on extravagant items that the resident would not normally purchase
- The reason for disposing of the capital asset must be considered
- When the disposal took place; although the local authority can look at deprivation occurring at any time it would be unreasonable to decide that assets were deliberately disposed of to avoid long term care charges if the individual was fit and healthy at the time and could not have possibly forseen a need to move into long term care

If the local authority decides that deprivation has taken place then they will next need to decide whether to:

- Recover the assessed charge from the individual or,
- If the individual is unable to pay the assessed charge, use the provisions of the Health and Social Security Adjudication Act 1983 (HASSASSA)

The relevant provision of HASSASSA 1983 is:

- Section 21 – If the transfer took place no more than six months before being assessed by the local authority, then the liability for the assessed charge can be recovered from the third party who received the asset.

Appendix 4 Contact List

ART Homes Ltd
Gee House,
Holborn Hill,
Aston, Birmingham
B7 5JR
Tel: 0121 327 3344
www.mercian.org.uk

Financial Services Authority
25 The North Colonnade, Canary Wharf,
London E14 5HS
Tel: 020 7066 1000
www.fsa.gov.uk

Home Improvement Trust
7 Mansfield Road,
Nottingham, NG1 3FB,
Tel: 0115 934 9511
www.improvementtrust.fsbusiness.co.uk

London Rebuilding Society
1st Floor
9 Bonhill Street
London EC2A 4PE
Tel: 020 7682 1666
www.londonrebuilding.com

Regenda Group
Regenda House,
Northgate Close Enterprise Business Park
Horwich, Bolton, BL6 6PQ
Tel: 01204 814000
www.regenda.org.uk

Wessex Reinvestment Trust
The Threshing Barn, Woodhayes,
Luppitt, Honiton, Devon,
EX14 4TP
Tel: 01404 549139
www.wessexrt.co.uk

SHIP members

Bridgewater Equity Release Limited
Citygate, St James Boulevard,
Newcastle upon Tyne NE1 4JE
Tel: 0800 100 1065
www.bridgewaterequityrelease.co.uk

Bristol & West Mortgages
Bristol & West plc, One Temple Back East,
Temple Quay, Bristol BS1 6DX
Tel: 0845 300 8000
www.bristolandwest4brokers.co.uk

Hodge Equity Release
30 Windsor Place, Cardiff CF10 3UR
Tel: 0800 731 4076
www.HodgeEquityRelease.com

Home & Capital
31 Goldington Road, Bedford MK4O 3LH
Tel: 0800 253657
www.homecapital.co.uk
enquiries@homecapital.co.uk

In Retirement Services
2 Alexandra Gate, Pengam Green, Cardiff, CF24 2SA
Tel: 0800 70 75 80
www.inretirementservices.co.uk

Just Retirement Limited
Vale House, Roebuck Close,
Bancroft Road, Reigate, Surrey,
RH2 7RU
Tel: 01737 233296
www.justretirement.com

Key Retirement Solutions
Harbour House, Portway, Preston, Lancashire PR2 2PR
Tel: 0800 064 70 75
www.keyrs.co.uk
info@keyrs.co.uk

Mortgage Express
Endeavour House, 1 Lyonsdown Road,
New Barnet, Herts EN5 1HU
Tel: 0500 0500 20
www.mortgage-express.co.uk

National Counties Building Society
Church Street, Epsom, Surrey
KT17 4NL
Tel: 01372 744155 (Mortgage Centre)
mortgage.centre@ncbs.co.uk
www.ncbs.co.uk

New Life Mortgages Limited
Warwick House, 737 Warwick Road, Solihull, West Midlands, B91 3DG
Tel: 0121 712 3800
www.newlifemortgages.co.uk
enquiries@newlifemortgages.co.uk

Northern Rock plc
Registered Office:
Northern Rock House, Gosforth, Newcastle upon Tyne NE3 4PL
Tel: 0845 60 50 500
www.northernrock.com

Norwich Union Equity Release Ltd
PO Box 520, Surrey Street, Norwich, NR1 3NG
Tel: 0845 302 0111
www.norwichunion.com/equityrelease

Partnership Home Loans
2nd Floor, Regent House, 1-3 Queensway, Redhill, Surrey, RH1 1QT
Tel: 0845 108 0582
www.partnershiphomeloans.co.uk

Prudential
Property Value Release Plan,
Stirling FK9 4UE
Tel: 0800 316 9959
www.pru.co.uk

Retirement Plus Ltd
Prince Frederick House,
37 Maddox Street, London W1S 2PP
Tel: 0845 850 8510
www.retirement-plus.co.uk

Standard Life Bank
Freestyle® Lifetime Mortgage
20 Brandon Street
Edinburgh EH3 5PP
Tel: 0845 609 0254
www.freestylemortgages.com

Stonehaven
83 Victoria Street,
London SW1H 0HW
Tel: 0203 008 8976
support@stonehaven-uk.com
www.stonehaven-uk.com

Stroud & Swindon Building Society
Rowcroft, Stroud, Gloucestershire
GL5 3BG
Tel: 08457 25 24 23

Tomorrow™
Tilehouse Street, Hitchin, Herts
SG5 2DX
Tel: 0870 609 0616
www.tomorrow.co.uk

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Unlocking capital from your home, Tomorrow, 2007

Appendix 6 Other related Housing LIN resources

Toolkits/Reports
More Choice, Greater Voice – a toolkit for a strategy for accommodation with care (CSIP/CLG, 2008)

Shared Equity – using private finance initiative to boost extra care housing
(CSIP/4ps, 2008)

The Extra Care Housing Toolkit (CSIP, 2007)

Technical Briefs
No1. Care in Extra Care Housing
No2. Funding in Extra Care Housing
No3. Mixed Tenure in Extra Care Housing

Further information
To access further Housing LIN information and resources on housing with care for older people and vulnerable adults, visit **www.networks.csip.org.uk/housing.**