adding more than value

Inventive equity–based financial products

Socially responsible, equity–based financial products are improving older people's lives thanks to inventive, community–focused partnerships

hact

HOUSING CORPORATION

The need for flexible, affordable and reliable equity–based financial products to enable poorer older owner–occupiers to maintain their homes and carry out necessary repairs and adaptations is well known. Hact's Older People's Programme established conclusive evidence that social financial products, combined with services that are motivated by social return, can improve well being.

Wessex Reinvestment Trust, a rural–based community development finance institution, developed a unique equity–based loan by working with ten local authorities, home improvement agencies and regional government.

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The Older People's Programme

The Third Sector has always played a critical role in developing ideas and practical solutions, but this ingenuity is often compromised by a lack of the requisite resources needed to turn ideas into sustainable solutions. In 2003, using funding from the Henry Smith Charity and the Housing Corporation, hact launched its Older People's Programme, in order to pioneer housing solutions for older people.

In partnership with the LintelTrust in Scotland, NIHACT in Northern Ireland and Community Housing Cymru in Wales, hact invited Third Sector organisations to apply for grants for projects that would develop and test practical solutions to housing issues affecting older people. In total, 19 projects from England, Scotland, Wales and Northern Ireland were given funds totalling £1 million.

The criteria for choosing the projects included ideas that could address gaps in services affecting marginalised older people, including those with mental health problems, older people in rural areas and Black and Minority Ethnic (BME) and refugee elders.

All of the projects worked with, as well as for, the benefit of older people. Hact encouraged all the projects to consult with older people, to develop partnerships with other organisations and to share their experiences with other projects on the programme. To ensure that insights from the programme were captured, hact employed Peter Fletcher Associates and Moyra Riseborough to evaluate the project. Finally, an advisory group was convened, composed of experts in older people's housing and this met regularly over four years.

The two projects that form the basis of this insight document – Wessex Reinvestment Trust (WRT) and London Rebuilding Society (LRS) – both covered the same ground, but approached it from different angles. Both are community development financial institutions providing a social dividend to their communities. Both wanted to develop new financial products to enable older people to release the equity in their homes to carry out essential repairs and improve the quality of their homes.

In practice, WRT developed a groundbreaking new financial product and an innovative form of partnership. LRS's project was similarly groundbreaking, developing an equity reversion scheme, through which a homeowner can swap a percentage of the equity in their homes in return for a structured package of repairs, home maintenance and improvement services.

Project information

Wessex Reinvestment Trust

Devon *www.wessexrt.co.uk*

PROJECT AIMS

- to establish a low cost, risk–free equity–based financial product to benefit older people in rural areas;
- to develop a range of financial products that complemented key grants such as Disabled Facilities Grants and repairs grants;
- to work with local authorities and home improvement agencies to help them make their funds for vulnerable low income home–owners meet more need.

ACHIEVEMENTS

- the project is the first of its kind in a rural area;
- the project achieved its targets in three years – projects of this kind typically take up to seven years to work;
- the project persuaded ten local authorities – including their lawyers, financial directors and elected members – to bid collectively for funding from the Government Office for the South West;
- the successful bid, the first of its kind, resulted in a loan fund of £2.6 million;
- the project also has an agreement in principle for an additional £500,000 in private finances, although this has not yet had to be used;
- by April 2007, over 110 older people had drawn down loans and more than £1 million of capital funding had been committed.

London Rebuilding Society

East London *www.londonrebuilding.com*

PROJECT AIMS

- to assist equity rich and cash poor homeowners to tackle disrepair and maintain their homes;
- to establish a pilot scheme to raise loan finance to supplement and complement grants, as a response to changes in the home improvement grant scheme;
- to work with local authorities and other agencies to assist disabled and other older residents.

ACHIEVEMENTS

- the project exceeded its initial objectives, and contributed to outstanding good practice;
- the project secured £5.7 million from the Treasury's Invest to Save budget;
- the project developed a new financial product based on an equity swap, linked to a structured package of repairs, maintenance and improvements;
- the project also used its links with Wessex Reinvestment Trust to develop an equity–based loan product.

A unique rural loan: Wessex Reinvestment Trust

Background

During the summer and winter of 2001, in the wake of foot and mouth, small businesses, social enterprises and voluntary organisations across the South West of England took part in research to identify gaps in the provision of finance and barriers to rural economic development. Promoted by Commercial Finance Solutions at the University of Salford and funded by the Countryside Agency, Housing Corporation and Lloyds TSB, it identified a demand for locally delivered loan services to develop enterprise and facilitate access to affordable housing and workspace. Wessex Reinvestment Trust was established in response to this in 2002. It is the first entirely rural community development finance institution in the UK.

Its overarching objective is to help rural communities become more sustainable, via three areas of activity:

- Business loans;
- Community assets;
- Home improvement loans.

The home improvement loans are aimed at people who want to bring their houses up to a decent standard but do not have the money to do so and cannot afford or get access to standard financial products available commercially. The idea of the Wessex Reinvestment Trust loan product is not to replace grants or displace them. It is a pragmatic response to changes in legislation that should enable local authority grants and loans for Disabled Facilities and home repair to go further. Behind the loans product is a thoroughly developed loans fund.

The project

In 2003, hact's Older People's Programme gave Wessex Reinvesment Trust a grant spread over three years. This enabled the organisation to employ a Fund Investment Manager whose sole remit was to develop the loan. Without this funding, the project could not have gone on to develop the home improvement loans product and make loans available.

Most of the Fund Investment Manager's time was spent negotiating with ten local authorities in the South West, persuading them of the benefits of the scheme. The idea was relatively straightforward, but it involved all ten local authorities working together, collectively creating a loan fund. The fund could then be drawn on by older homeowners to pay for repairs to their homes, at interest rates far lower than those

> **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 rotted, 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.

source: Wessex Reinvestment Trust

offered on the high street. The paperwork would be dealt with by Wessex Reinvestment Trust, while local authority or relevant home improvement agency would ensure the requisite building work was carried out.

The original capital loan fund of £2,625,000 was established when the ten participating local authorities successfully bid for funding made available by the Government Office for the South West, delivered through the Regional Housing Board. This fund was designed to 'kick start' regional loan schemes that would address failures in *Decent Homes Standards* for low-income older homeowners.

After numerous meetings, Wessex Reinvestment Trust signed a funding agreement with the local authorities for the delivery of an innovative home improvement loan scheme, which included an undertaking from Wessex Reinvestment Trust to lever in additional capital from the private sector. An agreement in principle for an additional £500,000 is in place, but has not had to be used.

Getting the local authorities to sign up to the scheme was groundbreaking by itself. By creating a large enough fund, however, Wessex Reinvestment Trust was then able to recycle the repayments that were made back into the fund in the shape of new loans. Having a large fund also gives Wessex Reinvestment Trust the ability to offer loans at fixed interest rates well below commercial interest rates.

There are three types of loans that have been developed, all of which are simple and straightforward:

- Capital and interest repayment;
- Interest only;
- Interest and roll–up.

The fixed interest rate is 3% and there are no loan arrangement fees. The loan is secured by an equitable mortgage. During the discussion period, customers are invited to ask family members or neighbours to attend meetings with Wessex Reinvestment Trust, and are also given access to independent financial advice. There is also a cooling off period before the final signing of the agreement.

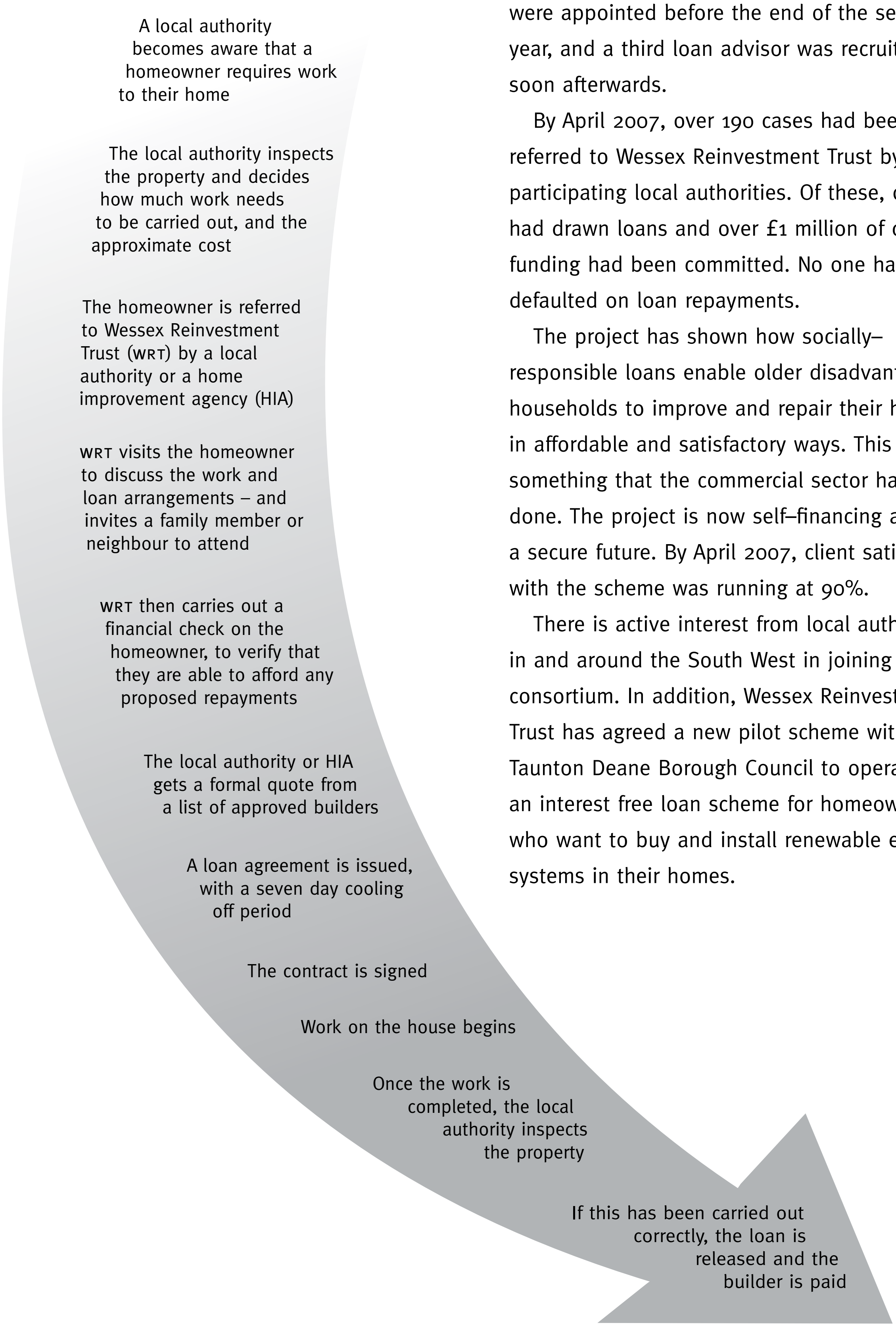
Each of the ten local authorities pays Wessex Reinvestment Trust an annual subscription, which covers the organisation's overheads. People living in their own homes can borrow up to £15,000 for repairs and improvements needed to bring their properties up to the *Decent Homes Standard*. The type of work that is eligible for the loans includes repairs to leaking roofs, rotten or draughty windows, central heating installation and treatment of damp.

The local authorities that signed up to the scheme are:

Bristol City
South Gloucestershire
West Dorset
Mendip
South Somerset
Taunton
Sedgemoor
West Somerset
North Somerset
Bath and North East Somerset

Wessex Reinvestment Trust is currently in discussion with a number of other local authorities that wish to participate in a similar scheme.

How the loan works



Impact

The project achieved its objectives within eighteen months of funding. Two loans advisors were appointed before the end of the second year, and a third loan advisor was recruited soon afterwards.

By April 2007, over 190 cases had been referred to Wessex Reinvestment Trust by participating local authorities. Of these, over 110 had drawn loans and over £1 million of capital funding had been committed. No one had defaulted on loan repayments.

The project has shown how socially–responsible loans enable older disadvantaged households to improve and repair their homes in affordable and satisfactory ways. This is something that the commercial sector has not done. The project is now self–financing and has a secure future. By April 2007, client satisfaction with the scheme was running at 90%.

There is active interest from local authorities in and around the South West in joining the consortium. In addition, Wessex Reinvestment Trust has agreed a new pilot scheme with Taunton Deane Borough Council to operate an interest free loan scheme for homeowners who want to buy and install renewable energy systems in their homes.

Insights

For other Third Sector organisations

- Consultation and communication are a *must*. Everyone involved has to own the scheme and understand what is happening. This takes considerable time and dedication;
- Simplicity is the key to success – schemes and loans have to be kept straightforward so they are transparent and understandable;
- Goals have to be realistic. Wessex Reinvestment Trust conducted reality checks before the project started to assess what was and wasn't realistic;
- Know and understand the market. It is essential to understand what kinds of products and services are available and how well they fit the profile of older people in local settings;
- Communication matters. Have efficient and effective systems to deliver the service, to communicate and make decisions;
- Keep on listening. Feedback from customers and stakeholders are useful sources of information to improve services;
- Get the right staff. The project recruited people with expertise who also had an interest in developing products and services to benefit vulnerable people;
- Don't give up just because it's too difficult. The project had numerous setbacks, but did not let these get in the way.

For funders

- Take a risk if new products and services are going to be developed;
- Risks are offset if the organisation applying for grant aid has a well–developed plan, has invested in preparatory work and has set realistic goals.

‘**Mrs V lives with her husband in the middle of the countryside.** She and her husband had to rely on a well for their water supply, and had never had hot running water. When the well ran dry – as it was doing with increasing regularity – they didn't have any water at all.

We visited them and discussed her options. Working with the local authority, a water engineer visited the property and identified a source of water – but it needed a 30 metre deep bore hole to access it. We arranged a loan for her to carry out the works, and to put an Aga into her kitchen, which now heats the water. We also arranged a loan for her to refurbish her downstairs bathroom, which now includes a shower.’

‘**Mr G was struggling to use his upstairs bathroom, mainly because the bath was too high for him to get in and out of.** He and his wife were concerned about asking contractors to come and do the work because they were uncertain about whether it would be done properly.

They contacted their local authority and asked for an inspection from a technical officer. It was agreed that they required a downstairs wet room to enable them to shower. We provided a low interest loan to finance the work.

It's made a huge difference to their lives and, to the client's relief, the work was inspected by the local authority to ensure it had been installed correctly.’

source: Wessex Reinvestment Trust

An urban, holistic approach: London Rebuilding Society

Background

The project was targeted on the east end of London, particularly the borough of Newham, where high proportions of older people live in some of the very worst housing stock in the UK. Local authority budgets couldn't meet the demand for Disabled Facilities Grants and repairs grants. There had been a lot of local initiatives to develop new services, for example, a home improvement agency, a money advice service and Helpco, an inventive service that enabled people to purchase low cost energy. This, however, didn't cover everyone's needs – for example, there was no register of reliable trades people, and there were concerns about older people falling victim to con merchants and cowboy builders.

The London Rebuilding Society project wanted to develop a holistic programme for older people whose homes needed improvements or adaptations. This would include, for example, home surveys, affordable maintenance packages, encouraging welfare benefit take–up and improving energy efficiency. Anecdotal evidence indicated that the project was needed – but no one really knew how it would work, or whether older people would, for example, really want a survey report of their home.

Simultaneously, the project wanted to develop possible equity–based loans, enabling homeowners to use the equity within the homes to pay for their repairs or home improvements. These would be targeted at lower–income homeowners, many of whom are unable to access other financial products, or couldn't afford to pay for independent financial advice.

The project

In 2003, hact's Older People's Programme funded a project worker, which enabled London Rebuilding Society to take forward a programme of work including:

- Research and development;
- Studies of homeowners needs;
- Piloting repairs and energy efficiency services and money advice;
- Developing free home surveys;
- Developing packages for affordable home maintenance;
- Improving energy efficiency.

The project established a pilot scheme in Newham and, towards the end of the funding period, another pilot was established in Greenwich. In total, 21 homeowners signed up to the pilot, so that London Rebuilding Society could research their needs, while developing a scheme that could be modelled in other communities. All of the homeowners:

- Lived in Newham;
- Held equity in their property (whether freehold or leasehold);
- Lived in properties which were unfit;
- Were on low or no income, or living on a state pension or disability benefit;
- Had a disability, or cared for a person with a disability, which resulted in special adaptations for their homes.

They discovered that this target group had difficulty in understanding their home repair needs and, even if they did, weren't able to find reliable suppliers. The poor condition of their properties meant that they wouldn't be eligible for standard mortgages and, without adequate income, couldn't afford an independent financial advisor.

The homeowners whose properties were surveyed often had complex problems and needed a huge amount of advice, advocacy and practical assistance because they had, for example, low educational attainment and or mental health problems. Some people were in crises situations and the project was often the only agency trying to find mechanisms to alleviate the crises. For example, the project came across three generations of people in one household who were living in appallingly dangerous and damp conditions. Two members of the family had social workers and were under the care of community psychiatric nurses, but very little had been done to assist the household with their housing problems.

There were also issues with cowboy builders and conmen, who are known to target older, isolated homeowners. Typically, older people would end up spending large sums of money on repairs that were unnecessary. Over pricing, uncompleted work and shoddy and dangerous workmanship were also discovered by the project.

When it came to developing an appropriate equity–based loan scheme, research undertaken before the project had started suggested that older people were not well disposed towards drawing on the equity in their homes. There were no reliable products (at that time) on the market. So London Rebuilding Society had to find out whether older people were prepared to use equity in this way, and then identify a suitable financial product.

Funding was critical to the success of the project. The project successfully bid for £5.7m from the Government's Invest to Save budget. The funds from the Older People's Programme together with government funds enabled the project to lever in match funding from HBOS Foundation, the London Borough of Newham, Charity Bank and Unity Bank. The target for matched funds was £1.8m. The project managed to raise £8m. This is a huge achievement and it could not have happened without the dedicated project worker paid for by the Older People's Programme who led the work to raise funds and drove the project forward.

Using the funds received from the Government's Invest to Save budget, London Rebuilding Society developed its *equity reversion* or *equity swap* scheme. By swapping a percentage of the equity

> **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

of their homes, homeowners are then able to receive a structured package of repairs, home maintenance and home improvement or energy efficiency services. Thanks to the links that London Rebuilding Society made with other local agencies, the packages can be tailored to meet the needs of the individual homeowner – and all the services are then organised by London Rebuilding Society.

The scheme is a swap, not a loan, so the homeowner doesn't have any expensive monthly repayments to make – and, importantly, it has no impact on any means–tested benefits they might be receiving. In fact, the swap is not repaid until the home is sold, which could be 20 years in the future. It is a groundbreaking scheme that delivers a pioneering solution based on the client's needs, and could easily be rolled out in other areas of the UK.

London Rebuilding Society's equity swap scheme gives older people access to a range of home improvement services and products

Impact

The scheme had a number of benefits:

- The scheme is an equity swap, so no loan repayments have to be made;
- Similarly, there is no adverse impact on any means–tested benefits that the homeowner might be receiving;
- The package of services includes a survey and inspection, leaving little scope for cowboy practices;
- It also includes an ongoing maintenance package to take the house to *Decent Homes Plus Standard;*
- It helps clients 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 homeowner needs to swap;
- It develops long–term relationships with homeowners based on trust;
- It includes a simple mechanism for the

release of further equity to buy more home improvements and other services.

The project had a number of outputs:

- A research report by London Rebuilding Society, called Affordable Home Improvement Solutions;
- A financial literacy programme;
- An advisory panel of leading experts in relevant fields;
- The establishment of a number of appropriate delivery partnerships;
- Research into how low income older homeowners can access cheap materials and energy;
- Access to reliable, trustworthy financial and loan products were selected;
- Home surveys were tested and refined, and are now available for future clients.

The scheme is being delivered through a partnership that includes CDS Co–ops, Greater London Energy Efficiency Network (GLEEN)/ HelpCo, the Newham Home Improvement Agency, and NEWCO, as well as private companies which have a social enterprise outlook, such as local building firm G2.

As a result of the scheme, vulnerable owner–occupiers are now able to access products and services giving them:

- Better financial assistance;
- Reputable financial products;
- Access to reputable contractors;
- Reputable maintenance and repair services;
- An accessible maintenance plan;
- Links to other sources of advice and assistance.

Insights

For other Third Sector organisations

- There are clear gaps in service provision for older owner occupiers whose homes are in disrepair;
- Information and signposting are not enough. Vulnerable older people need much more help including advocacy;
- Where there is serious disrepair, other problems are likely to exist. Health and social care professionals need to take account of the effects of disrepair on people, and to take responsibility for helping people resolve their housing problems;
- Problems of disrepair are so great in some instances that homes have to be made safe. Some people will need temporary housing while work is being carried out;
- There is an urgent need for lists of approved and reputable trades people;
- Poorer older home owners cannot access standard financial products and services;
- The financial products developed by Third Sector organisations are more appropriate for poorer older homeowners;
- HIA services have made many improvements, but they haven’t gone far enough.

For funders

- Ambitious and highly innovative projects inevitably face delays in achieving key targets;
- Complex funding relationships and working partnerships have to be established and maintained – funders need to recognise how important these tasks are;
- The pressure on this organisation was enormous – it succeeded through a combination of commitment, inquisitiveness and expertise, despite major funding issues.

The new financial products it developed helped local authorities in the South West of England to maximise the impact of their grant funds. The loans have provided older homeowners with access to low–cost, low–risk finance, free of fear from conmen or cowboy builders.

London Rebuilding Society (LRS), a community development finance institution, developed a new scheme in Newham that provides a holistic programme for older homeowners on low incomes whose homes need improvements or adaptations. The scheme is based on equity reversion, and includes access to local home improvement agencies, home energy efficiency schemes and affordable maintenance packages, as well as home surveys and a list of reputable builders. As the scheme is a swap and not a loan, there are no expensive monthly repayments and no impact on any means–tested benefits received by the client. If required, LRS is able to offer an equity–based loan developed by Wessex Reinvestment Trust, which chose LRS to be its urban partner because of the relationship they developed through the Older People's Programme.

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Recommendations

- Government support is required to roll out the lessons from both projects throughout the country;
- Partnerships of local authorities and suitable local community development finance institutions should use the model developed by Wessex Reinvestment Trust;
- Community development finance institutions, home improvement agencies and local authorities should adopt the equity swap model developed by London Rebuilding Society;
- Older people can have confidence in equity–based solutions to housing disrepair if strong community–rooted partnerships are in place to deliver and support them;
- Older homeowners on low incomes need choices, advice and, at times, advocacy. The cost of these services should be factored into budgets for local authorities and Third Sector organisations;
- Communications bridges between the health, care and housing sectors need to be developed and/or consolidated, so that gaps in housing service provision are identified and tackled;
- Funding of future pilot programmes needs to enable cross–fertilisation of ideas and experiences over a minimum period of three years – partnerships take time to develop.

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