The Actuarial Profession
making financial sense of the future

Report on Equity Release Mechanisms

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Introduction

1 Purpose

A main purpose for this study, apart from giving a comprehensive overview of the use of Equity Release Mechanisms (ERMs) in the UK at Year 2000, is to try to identify the barriers that prevent the development of ERMs. In the concluding Section we make recommendations for providers, Government and the legislators which could lead to an expansion of the service.

There is a clear need for a service which would help older people of moderate means and with low/medium priced houses to supplement their income, to raise money for capital needs and generally improve the quality of their lives. This service is not being made available to many people. We believe that if the recommendations are adopted many other people would benefit because they would have the resources to exercise extra choices and have the means to arrange their affairs and choice of life style more satisfactorily.

2 Equity Release Mechanisms

The majority of people in the UK save over their working lifetime to buy a house and pay off the mortgage. 70% of people live in owner occupied accommodation. Over the years they have made considerable amounts of capital appreciation as house prices have steadily increased with only a few downturns in value. However, though they are asset rich their wealth is tied up in the house.

Equity Release Mechanisms (ERMs) are financial schemes, normally mortgage or reversion based which enable a householder to draw down some of the equity in the house. The amount drawn down is repaid when the houseowner dies or moves out of the house. Repayment can be deferred till the death or exit of the plan holder or a surviving spouse. In some schemes interest is paid each year, but in others interest (or equivalent capital appreciation) is rolled up and paid when the capital is repaid. With most ERMs the scheme can be transferred to another house if the owner moves. Up till recently ERMs have been principally designed for retired people.

3 Use of ERMs

The planholder of an ERM can either take a capital sum or an income from the plan. The majority use the ERM to provide extra income in retirement or lump sums to fund urgent repairs or maintenance to the house. Alternatively, they can use the money for leisure or to pay for long term care or the cost of medical treatment. However, the main use of equity release is to raise 'money to live on'. Plan holders tend to have incomes slightly higher than the Minimum Income Guarantee and possess medium priced houses.

Up to now more affluent people tend not to use ERMs as they can obtain finance by other means. People who are at or below the Minimum Income Guarantee are deterred from using ERM because they could lose means tested State benefits. People who do not own a property cannot directly benefit from ERMs.

There is some evidence that in recent years ERMs have been used by people below retirement age who have made substantial appreciation on their house and now want to unlock some of the equity.

4 Customer concerns

The majority of older people are reluctant to use the value of the house to increase income. Consumer confidence in ERMs is low and older people are generally suspicious of the products and of the organisations promoting them. Yet, there are high levels of customer satisfaction from existing planholders. The legislation covering ERM products and the way that they are sold is very patchy - some schemes are totally unregulated. Comprehensive regulation would improve customer confidence. Some potential providers hold back from issuing ERMs until regulation is in place.

5 Inheritance

There is a strong desire for some people to leave the house as an inheritance for their children/grandchildren. It is argued that people's attitude to leaving an inheritance is changing. However, there is little firm evidence and an independent enquiry is needed on people's views in the various generations. It may well be that most people would like to leave the house to children but are not prepared to suffer to do so. ERMs which only use part of the value of the house and leave a remainder for an inheritance may help overcome the reluctance to release house equity.

6 Risks and Guarantees

Since the 1980's when poorly constructed Home Income Plans were sold to the public a code of voluntary regulation has been adopted. Present day plans have inbuilt guarantees and the risk of losing ones home has been eliminated. Many plans include 'no repossession' clauses. The plans can be readapted if the planholder wants to move house or enter a nursing home.

7 Funding Issues

The development of ERMs has been held back by difficulties in obtaining finance from long term investors such as pension funds and life offices. The existing vehicles for investing in residential properties or mortgages are not completely satisfactory for long-term investors - tax anomalies and difference in interpretation of the European legislation have to be overcome before satisfactory vehicles can be developed.

Part A Needs and Attitudes

A1 Potential Market

The proportion of people who are homeowners, with and without a mortgage, is shown in Table 1.

Table 1: Ownership by age of the head of the household. (Great Britain)

Age	Owned Outright	Owned with a mortgage	Total Percentage
	%	%	%
30 - 44	5	65	70
45 - 59	24	54	78
60 - 64	51	25	76
65 - 69	64	11	75
70 - 79	62	6	68
80+	56	2	59

Source: General Household Survey

People over age 65 have slightly lower percentage of home ownership than people at younger ages, but home ownership by retired people will grow over succeeding decades. However, outright home ownership, without a mortgage, is highest for people over retirement age and the few who do have a mortgage probably have low amounts outstanding.

It is interesting to note from Table 2 that for property owners the mean property value is roughly constant over all the age bands. At ages over 65 practically the whole house value constitutes equity (value of property minus outstanding mortgage) - the equity of the age group 50-64 is lower as not all mortgages are paid off.

Table 2: Property and Equity in house owned by older people

Age Range	Median Property Value (£)	Median Equity(£)
50 - 64	72,700	64,900
65 - 79	72,100	71,100
80 plus	72,500	79,900

Source: Family Expenditure Survey 1995-6

In the age range 65-79 there is considerable variation in house value according to income status. For property owners in the highest quartile of income the median was £108,100 compared to £56,600 in the second poorest quartile. Median prices varied according to region: £54,800 in Scotland, £58,500 in the North of England, ranging up to £114,400 around London.

In 1991 The Council of Mortgage Lenders (CML) estimated the total equity value owned by people over 65 in the UK was £298 billion. CML reported in 1997 that they estimated a total equity value of £367 billion. At year 2000 values the total must be over £400 billion.

A2 Traditional attitude to the use of ERMs

Up to now the majority of older people who are homeowners are reluctant to use the value of the house as a means to increase income. Using the house is generally seen as a last resort only to be used if income becomes inadequate.

Homeowners who are rich in terms of income and housing wealth do not, up to now, use equity release to satisfy aspirational needs - e.g. world cruises, expensive holidays, top of the range cars. They generally have other means of raising the necessary cash.

To most people the outright ownership of the house is a major achievement. It represents the end result, a significant saving made over a long period of years. Ownership provides a sense of independence and security. People will not lightly compromise this satisfaction. They also have an emotional attachment to their home.

In a survey conducted as part of the Millennium Debate of the Age, which was co-ordinated by Age Concern, people were asked if they would use the house to provide extra income. Around 25% agreed with the proposition 'If I own a property I will sell it to provide income for when I am older', whereas 50% disagreed with the proposal and the balance neither agreed nor disagreed, or did not know - the response was fairly consistent according to gender, marital status, religion and income group - (Tables B13 - B17 of MDA Survey).

A similar degree of reluctance to use an ERM to provide income was recorded by Don Preddy in a research report 1994 for National Provident Institute. The reluctance persisted even though the life-long occupancy of the house was guaranteed. He concluded that a person would have to be seriously hard up before using an ERM. This means that the person would have difficulty in paying basic household bills and buying food.

This attitude is confirmed by several other surveys and confirmed by a survey of providers who are members of a SHIP Scheme (Safe Home Income Plans). The SHIP survey also confirmed the characteristics of ERM clients put forward by Judith Davey (in Equity Release: An option for Older Home Owners.) The profile of ERM users was:

- Almost half the people taking ERMs were women living alone, mainly widows; one in five were men living alone; and a third were married couples. Just over half had children, but wanted to keep their independence.

- Clients were drawn from all socio-economic groups but had mainly been in non-manual occupations. Most lived in the middle range of incomes for their age group - £100 - £199 a week £5,000 - £10,000 a year) comfortably above Income Support levels. They generally had some income on top of the state pension, usually from occupational pensions and investments, and some modest savings.

- Clients were typically mortgage-free and lived in a range of house types, sizes and values. Most typical was a post-war, two-bedroom bungalow worth around £65,000 (1995 prices). A survey of SHIP customers showed that about 20% used an ERM to pay off any existing mortgage.

People with the lowest incomes, and who have a greater need for extra income, are even more reluctant to use ERMs. They generally have lower value houses which would only provide little extra income. Hancock, in her paper* shows the strong correlation between low income and low property price, but 15% of people in the 2nd lowest quantity of income had property in the highest two quantities. She concluded that ERM were not of great help for people in the lowest income groups, as the extra income produced was low and there was the potential loss of State benefits. However, the figures were based on a Home Income annuity based product. More modern plans could give better value for money but the general conclusions would be unchanged.

A3 The main ERM market

Traditional equity release types of scheme may be unattractive for people below age 70. Due to the roll up on interest and the likely duration of the contract only a small advance in comparison to the current value of the house is generally granted. Some of the newer types of ERM appear to give better value for money for the under 70s, though the main market is still the over 70.

The population over 70 has perhaps £200 billion worth of equity. These people would fall into 3 broad categories:

(a) people with reasonably good income who have sufficient income for their current needs, but may need capital;

(b) those who need/want extra income (and perhaps some capital) and have medium/high priced houses;

(c) those who need extra income (and perhaps some capital) and have low/medium priced houses.

Up to the present Category (a) people tend not to use equity release mechanisms and only use ERMs if income reduces to a level they consider to be unacceptably low, e.g. death of a partner and reduction of pension, though there appears to be a trend for some of them to use ERMs to provide capital rather than income.

Category (b) people appear to be the prime market group for ERMs. There is a need for income or capital, and the size of the transaction is economically viable for the providers.

Many ERM providers do not offer schemes to Category (c) people because the providers cannot handle small ERMs within the expense margins they build into their contracts.

This may mean that the market for ERMs is limited to around £100 billion. This is still a large potential market and the figure could be expanded if:

(1) there is a change of attitude in Category (a) houseowners;

(2) more ERMs are developed that are attractive to people aged below 70. This may be a prime market for the future;

(3) products are designed for lower case sizes: Category (c) houseownwers and with appropriate margins for operating expenses.

Though the market may expand there is still reluctance in the population to use ERMs, and people do not necessarily think of ERMs as safe and offering good value for money. This line of business is increasing but is still very small, at around £500 million in total up to the end of 1999, despite strong marketing messages being put out by the providers - especially the extra comfort provided by extra income, but the ability to indulge in leisure activities, including quality time with grandchildren, the sense of security of having some money in the bank, etc, etc. Though the market is small in relation to its potential size it has shown a strong upward trend in recent years.

A4 Trend to younger ages

Some ERM providers report that the age when contracts are being effected is lowering and ERMs are being taken by the recently retired and those approaching retirement. The new type of customer is generally younger than traditional planholders and owns a higher value property on which substantial capital appreciation has been made. The customers now wish to realize part of the gain. Though they are likely to be high income earners now they wish to avoid interest and repayment of capital over the future years. There are likely to be a combination of reasons for this trend:

(a) Better constructed policies which are more appropriate for people below 70.

* "Can Housing Wealth Alleviate Poverty among Britain's Older People", 1998.

(b) More positive and realistic planning for retirement income, which includes planning for inheritance tax, long term care costs and equity release. They want to enjoy their large amount of capital appreciation now and wish to obtain capital rather than income.
(c) Changing attitudes to inheritance. Recently retired people may feel less pressure to provide an inheritance to their children than the current generation of older people.

The new generation are likely to be much more familiar with investment products like TESSAs and other Government sponsored saving schemes, endowment mortgages, personal pensions, holding shares, etc. They may have experience of drawing on home equity to finance building works, extensions to the home and purchasing other major products. This generation may have very different attitudes than the traditional purchasers of ERMs.

ERM providers will wish to pursue their own market research on these trends. In addition there is a clear need for independent research into attitudes to inheritance and attitudes of children supporting older people. The attitudes of people approaching retirement and recently retired people need to be compared to the long time retired. The attitudes could be quite different.

A5 State Benefits

In the UK more than 40% of retired people have low incomes that qualify them for at least one of the three main means-tested benefits (Social Security Statistics, 1999). This figure predates the introduction of the Minimum Income Guarantee benefit and current figures are likely to be higher. The main State means-tested benefits are Minimum Income Guarantee, Council Tax Benefit and Housing Benefit. Housing Benefit is only available for rented accommodation. If householders effect ERMs then the Minimum Income Guarantee is reduced £1 for £1 by the income from ERM - though the basic old age pension is not reduced. A person who takes a capital sum from an ERM is also penalised since he is deemed to have an income from the capital of £1 per week for every £250 of capital. (Government are considering a relaxation of the equation.) This rate is probably much higher than the person can obtain so the loss in means-tested benefit could be more than £1 for £1. To a lesser extent Council Tax Benefit relief is affected, but the householders lose other benefits like free dental care. So, income from an ERM could lead to a reduction or loss of Minimum Income Guarantee and/or Council Tax benefit as well as other lesser benefits.

It can be demonstrated that though the gross expenditure of older people who are tenants is higher than those who are owner-occupiers when Housing Benefit is taken into account the net income of tenants and owner occupiers is almost identical. It appears a bad public policy for people who have saved over their lifetime to own their house outright to have no ability to increase their income in later life by employing some of the house value. Why bother to save when the benefit cannot be enjoyed when the asset is wholly or partly realised? People are discouraged from saving, encouraged to spend and then later become dependant on the State. There is a strong case for the State to introduce a disregard so that any capital value or income generated by an ERM is disregarded, at least in part, from means tested benefits. The Pension Credit Scheme is being introduced for people with moderate pensions (above the Minimum Income Guarantee). These provisions should also be extended to people using ERMs.

If the use of ERMs became widespread then income levels and capital in the hand of planholders would increase. There could be substantial saving to the State on means-tested benefits - full Minimum Income Guarantee, Council Tax Benefit and care costs etc. Many people would prefer to pay for these services themselves without going through the 'indignity' of applying for means-tested benefits, especially the Minimum Income Guarantee.

On the other hand, introducing the equivalent of a 'pension credit' for ERMs would reduce the savings to the State. The actual balance cannot be calculated at today's date, but there is likely to be a net saving to the State.

A6 Inheritance

The reluctance to use the house to provide income is compounded by people's attitude to inheritance. Most people of all ages wish to leave an inheritance to their children/grandchildren. In some cases a major motivating factor in deciding to buy a house is the wish to leave it as an inheritance.

Not only are people disinclined to use the house to provide themselves with an income, they are very averse to using the house to pay for care costs. In response to question in the MDA Survey 'Older people should be allowed to leave any savings they have, including capital assets such as their house, to their children, rather than using it to pay for care to look after themselves', the survey showed:

'Older people should be allowed to leave any savings they have, including capital assets such as their house, to their children, rather than using it to pay for care to look after themselves', by gender and age group.

Men

	Age Group					
	16-24 %	25-44 %	45-54 %	55-64 %	65-74 %	75 & over %
Agree	72	70	77	84	73	75
Disagree	12	17	10	10	19	18
Neither agree nor disagree	16	13	13	6	8	7

Women

	Age Group					
	16-24 %	25-44 %	45-54 %	55-64 %	65-74 %	75 & over %
Agree	67	67	66	71	70	62
Disagree	19	17	16	15	17	16
Neither agree nor disagree	14	16	18	14	13	22

The desire not to use the house to provide income at the expense of leaving an inheritance is stronger in lower income groups. Middle and high-income groups have more willingness, and their attitude may reflect the fact that they have more wealth overall and will be able to pass on a part, at least, of the value of the house to children/grandchildren. ERMs which only use part of the house value and leave a remainder for an inheritance may help overcome the reluctance to release house equity.

Very few families discuss rationally the subjects of poor health, or death of parents and the issues surrounding inheritance. The subject is taboo in some families. As a result parents exist on a depressed standard of living and are unaware of the wide range of choices for inheritance, money to live on and capital release, or combinations of all three. Perhaps the ERM providers should join together to mount a national campaign to make older people aware of the issues and choices. It should be remembered that only 5 years ago Funeral Planning was also a taboo issue and yet now Prepaid Funeral Plans are a very fast expanding line of business.

It is argued that people's attitude to leaving an inheritance is changing and future generations of old people are more likely to use their assets to provide income. Some older people may be more inclined to spend on themselves, as their children are already prosperous, in good jobs and richer than their parents. Over the past years more affluent parents may have given financial help to their children with education, first home, car and everyday living costs - for those people inheritance is less of a priority. Some older people are not looking for financial support from their children in old age and they do not feel the strong need to leave an inheritance, which the children may not need. Preddy in the paper for NPI summarises the attitude to inheritance:

'As far as inheritance is concerned most people . . . would like to leave their houses to children, but are not prepared to suffer to do so. Many children encourage their parents to use their assets to make life more pleasant for themselves rather than going short in order to keep the inheritance intact.'

This view reflects the practice of when ERMs are used - generally when there is a sudden shortfall of income (pension stops or the realisation that a fixed income has been seriously outstripped by continual inflation) or a new need has arisen (cost of long term care, private medical treatment). The death of a partner can lead to a general reassessment of needs.

In the experience of SHIP Offices daughters/daughters in law are more inclined to encourage parents to use an ERM, while sons/sons in law are less enthusiastic.

The views of inheritance vary widely from person to person. It is argued that attitudes are changing, but there is little firm evidence. Opinions vary from a small minority who would willingly use ERM to the majority who see it as a 'distress purchase'.

A7 Past Problems

Though modern types of ERM give extensive guarantees and improvement on products sold in the past the problems associated with Equity Release Schemes in the 1980's have passed into folklore. Thousands of people were sold plans which were a combination of a mortgage, normally at variable rates of interest, and an investment bond mainly invested in equities. In the subsequent recession interest rates rose and the value of the bonds fell. In many cases the bonds failed to produce an income for the planholder, or even to cover the interest payments on the mortgage. These products were outlawed in 1990 and compensation was paid under the Investors' Compensation Scheme. There are still a few cases that have not been resolved.

The miss-selling of these poorly designed plans has tarnished the image of ERMs generally. Consumer confidence has recovered to some extent but is still not high and older people are suspicious of them and the organisations/ intermediaries promoting them. Also, financial institutions are wary of risking their reputation on a product with a poor image. Some institutions hold back from developing ERMs until there is legislation in place, which effectively regulates the sale process.

Providers had a major marketing challenge to re-establish confidence in the products, reassuring potential customers and being seen as credible financial institutions. This has required a considerable effort and the re-establishment of confidence has been achieved in part. It is important that the progress is not jeopardised by any one or group of providers.

A minority of older people would approach an independent adviser on the possible purchase of an ERM - the majority would rely on advice from friends and relations, and they are influenced heavily by what they read in the newspapers. It is interesting to note that despite eye-catching headlines and positive views on ERMs many press articles on equity release contain a note of caution. Surprisingly, some people consult their doctor for financial advice, especially if the need for income is related to care or health conditions. In a survey (Millennium Debate of the Age) 30% of people said they would approach their doctor in this case - considerably higher percentage than those who would contact an IFA, insurance companies or bank/building society.

Despite the difficulties of the 1980's there are very high levels of customer satisfaction from existing planholders, whether an IFA was involved or whether the initial contact had been direct with the provider.

A8 Awareness

The awareness of equity release schemes is high, nearly 70% of houseowners were aware of them and between 15 and 20% consider that they may one day use an ERM. These figures should give some satisfaction to the providers, but they will need many more positive marketing messages and more confidence building to achieve large-scale completions.

A9 Overcoming suspicion

Older people are suspicious of ERMs and think they may be at risk of losing their home at some date in the future. They are also suspicious of the institutions selling them. If the industry is to grow providers have to allay people's fears. This would require a long list of promises to be inherent in the agreement and for the provider to subscribe to a code of good practice. The requirements that are put forward by potential customers are shown below. They tend to show people have an understanding of ERM generally, but not necessarily the detail.

1) The planholders can occupy the house until the death of a surviving spouse, or until they wanted to move beforehand.

2) The income from the ERM would continue no matter how long they live if they continue to stay in the house. They would not be required to surrender more capital if they lived longer than expected.

3) They would have the ability to move house and the ERM would be transferred to a new property.

4) If they had given up part of their house then the provider could not deal or sell the other part without their consent.

5) Some guarantee that if the provider was closed to business or taken over by another company the ERM would continue perhaps under some kind of Trust. People would feel safer if the arrangement was with a well-known name or carried an endorsement from a body they could trust.

6) In the case of a roll up mortgage a guarantee they would never be evicted, even if the roll up amount exceeded the value of the property. They would not be expected to start paying interest again.

7) The provider would not make unnecessary demands for costly maintenance.

8) If for any reason the scheme went wrong they could call on an official body to rule on the case

9) They did not want the provider making a lot of money if they died soon after purchasing the ERM - some kind of return should be paid into their estate.

10) They could extend the ERM if they still had some equity on the house

11) The whole scheme would be vetted by a solicitor.

Not all the ERMs in the market give the range of guarantees and promises. It is the potential planholder's responsibility and the financial adviser's responsibility to point out if any are omitted from a particular plan.

Effecting an ERM is not necessarily a complicated business, but understanding the financial consequence is complex. It is a major financial transaction for most people. It is right that people should be given understandable explanations from advisers who are trained in the subject. Providers should attempt to simplify the whole process and avoid small print. Many people prefer to conduct their initial enquiries over the telephone.

A CML survey showed that there was an overwhelming preference for simplicity. Some people took an interest only or an interest roll up ERM scheme, whereas they had previously rejected the traditional home income plan or home reversion schemes because they found them too complicated. They also perceived that these schemes locked them into a product from which they could not easily withdraw.

Some older people are likely, after considering the options for ERMs, to draw on family resources on an informal basis. They prefer this approach to taking a loan or investing in an equity release product since these form a charge on the house. It is not known how widespread is this practice. Perhaps there is scope for a specialist provider to assist in these informal arrangements by making formal contracts with children, other relatives and potential beneficiaries.

A10 Regulation

There is no specific regulation that applies to ERMs, but there are a number of different sets of regulation, which may apply to parts of some ERMs. An ERM based on a loan of under £25,000 falls under the Consumer Credit Act of 1974. An ERM with an investment element or an annuity is regulated under the Financial Services Act. However, an ERM based on a reversion which just provides cash is not regulated at all.

To protect the public and to encourage the development of ERMs an effective regulatory framework is required. The regulation should apply to the sales process as well as the product design. Good quality advice is difficult to obtain though there are good quality IFAs who specialise in ERMs. Probably there are not enough of these quality advisers if the use of the ERM market develops.

The Consumer Credit Act 1974 lays down minimum information requirements, including the amount and rate of interest. The withdrawal and cancellation rights, provision of cooling off periods, debt enforcement and early termination are covered. The provider may be liable for costs of a linked intermediary. Credit business is licensed and monitored for compliance by the Office of Fair Trading.

The Act was never designed for ERMs and it adds to the cost and complexity of granting a loan. The regulations are very rigid and prescriptive and the documentation is cumbersome. For these reasons many providers do not issue ERMs below £25,000, and yet there is a significant demand below the level, principally for home repairs and maintenance.

The warning required by Consumers Credit Act on all literature and advertisements for credit secured on the home stating, 'Your home is at risk if you do not keep up repayments on a mortgage or other loans secured on it' has now been changed to, 'Check that this mortgage wil meet your needs if you want to move or sell your home, or you want your family to inherit it. If you are in any doubt seek independent advice'. This wording is much more appropriate, but there is an anomaly that no such warning is required for schemes based on reversions.

The Council of Mortgage Loans has introduced a voluntary Mortgage Code of Practice to which the overwhelming number of mortgage providers, but not all, subscribe. The Code applies to all loans secured on a person's principal residence and covers all mortgage type ERMs over £25,000. The voluntary code is still the basis of regulation. However, the Government has decided that the Financial Services Authority (FSA) will take responsibility for all regulation on mortgage lending and ERMs, and it is intended to introduce the new legislation by 1.1.2002. The consultation process began in 2000. The classes of mortgage/loans to be covered by regulation and the form of regulations are being defined. The FSA has decided that ERMs will be included in the legislation.

The most satisfactory solution would be for all ERMs to be exempt from the Consumer Credit Act and covered by all embracing regulations under the Financial Services and Marketing Act. To protect consumers' interest some of the regulations under the Consumer Credit Act will need to be included in new regulations and attention should be paid to some of the provisions in the 'Truth in Lending' regulations of the USA. Any new formal regulatory framework should include selling practices.

At present ERM providers are regulated under Safe Home Income Plans (SHIP), but this is self-regulatory and some ERM and reversion providers are not members. Whether regulation of ERMs is statutory or self-regulating, regulation should include:

a) Product Design
   - The client must have the right to live in the property throughout his or her life (security of tenure).
   - If the product is a mortgage, the interest rate should be fixed or capped.
   - The product must permit moving to another property without penalty, and potential customers be able to ascertain the terms and any restrictions on moving house.

In other words, the client cannot lose their home whatever happens to Stock Market or interest rate.

b) Literature
   Providers of ERM should ensure a fair, simple and complete presentation of their plans. The benefits, obligations, variables and limitations must be clearly set out in 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.

c) Requirements before a Plan can be completed
   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 Certificate will clearly state the main costs to the householder's assets and estate, e.g. the loan amount repayable on death whether part or all of the property is being sold.

d) Standards of Advice
   - All advice should follow the regulatory requirements within the Financial Services and Marketing Act. However, some type of 'Execution only' provision could exist for some loans or mortgages that do not involve an investment content, but even so advice suitable to the nature of the contract must be provided.
   - The implications of the plan for the client and their family should be discussed, and the client must be fully aware of such implications before completing.
   - All advisers must be registered with an appropriate body.
   - All advisers must be professionally competent to advise on Equity Release products including the impact of taxation and Social Security benefits. They must also be properly supervised (including regular assessments).
   - Tight rules should be made on client contact, such as a prohibition of cold calling, calls only made at appointed times etc.
   - A full fact find or questionnaire should be completed before recommendation to ensure a proper diagnosis of need/suitability.
   - If an investment product is recommended in conjunction with an Equity Release product, a clear explanation must be provided of the risks involved in the combination of the two products.

e) Complaints
   A formal complaints procedure and a compulsory arbitration system must be in place.

The above minimum standards are appropriate to mortgage based schemes and some are not appropriate to cash reversion schemes where no financial advice is given.

CAT standards for mortgages were introduced by Government in April 2000. They set standards for Charges, Access and

Terms. Such standards are voluntary but are designed to indicate to a consumer that a particular product, while not necessarily the most suited to their circumstances, offers a reasonable deal. Almost certainly these CAT standards will be extended to the mortgage part of ERMs.

Opinion is divided on whether CAT standards should be extended to the whole of an ERM. One view is that CAT marking will introduce more customer confidence and conformity to the market. This is considered important for customers who only have the means to take a small level ERM (say for house repairs). The need is seen for a simple straightforward vehicle with CAT standards which would ensure the customer gets fair treatment and that the requirements of para A9 are satisfied.

Others point out that introducing CAT standards will prohibit innovation of new products and is unnecessary because the FSA regulation already covers the investment content of ERMs, and that is sufficient.

The matter will be decided when further consultation papers are issued and the FSA decides the final shape of regulation.

A11 Government Response to Royal Commission on Long Term Care

Most people of all ages think that it is unfair that those needing long-term care should be forced to sell the house to pay for care. It is unlikely that this view will change significantly with the proposals for charging long-term care services. The Government Response to the Royal Commission's Report proposes that from October 2001 all nursing care should be paid by the State, irrespective of where it is delivered, but that accommodation costs and other non-nursing care (personal care) services should continue to be paid by the individual, subject to a means test. The definition of nursing care is not finalised, but the Government proposal is the time spent by a registered nurse on providing, delegating, or supervising nursing care.

The Government has rejected the main proposal of the Royal Commission that all personal care should be paid by the State. Care services will still be provided by local authorities who are responsible for administering the means test. Where a spouse continues to live in a house (and some categories of dependants) while the partner is in residential or a nursing home the house is not included in the means test.

Local authorities are to be given powers to grant loans on properties instead of requiring the property to be sold quickly to pay for care costs. A 3-month disregard is to be introduced. The Government proposal is that local authorities can make loans on the value of the house with the loan being repaid on death or eventual sale of the property. Local authorities always had the power to take a charge on a property, but had very restricted budgets. However, the Government now intends to give a designated budget to authorities to promote and encourage loans of this type - the total figure is £85 million spread over a 3 year period.

So, for people in residential accommodation and nursing homes, or people receiving care at home the local authorities are offering equity release facilities to cover care costs. It is too early to gauge what criteria will be used and the terms and conditions of the loans. Several commercial providers already offer a similar scheme - an ERM is effected and then an 'enhanced annuity' is purchased with the aim of providing an income to pay care costs. The terms of the enhanced annuity take into account that likely reduced longevity of the person in care. With enhanced annuity products, (also called immediate needs insurance) the longevity risk is borne by the insurance company. With the loan type arrangement from a local authority or elsewhere the borrower has the risk he/she will survive longer than expected and consequently the cost of care steadily runs down asset values. Before the Government proposal on loans was released the use of immediate needs annuities to cover long term care was increasing. It had the advantage of postponing any decision of funding long-term care until it was clear that care was required. The public are wary of pre-funded long-term care insurance taken at an earlier age when the person was reasonably fit since most people believe the State should pay for all care needs and the popular belief is that there will be only a small chance of a person needing these expensive care services.

It is not clear at this stage what impact the Government proposals, which come into effect on 01.04.2001 and subsequently, will have on equity release or on long-term care insurance. It may have a detrimental effect to the extent people who are houseowners may now think there is no need for ERMs to cover care costs. On the other hand, if Government promotes its own version of an ERM scheme it could bring much wanted public confidence to the whole ERM market and to the private sector.

The funding proposed by the Government (£85 million over 3 years) does not appear sufficient if the scheme appeals to individuals and to local authorities. This could provide an opportunity for private providers to co-operate with local authorities to provide ERM facilities - this would appear to be consistent with the Government's approach to funding repairs and maintenance on domestic houses.

The use of ERMs to pay the single premium cost of a pre-funded long-term care insurance policy has been promoted by some providers, but has not proved popular with the public - two contracts are involved, a mortgage or reversion and an insurance policy. The combination of two profit margins, two margins on interest rates, two sets of expenses and commission and different assumptions on longevity did not lead to an attractive looking overall package to many potential customers. This type of arrangement was rejected by the Commissioners in their report on Long Term Care.

A12 House Repair

Though the need for many older people is extra money for living expenses some prefer to use an ERM to produce a capital sum. Many have a need for money for essential repairs and maintenance of the house. This may involve amounts from £2,000 to £30,000 with an average of around £7,500. People have difficulty in arranging ERMs at this low level, as some providers will not deal with small cases because the costs involved exceed the providers' expense margin.

Until December 1996 people who passed a means test had a mandatory right to a Renovation grant if the house failed a statutory fitness test. They could receive 100% of the cost of making the property fit. Since 1997 local authorities have the discretion of whether or not to give a grant. The funds available to local authorities have been drastically reduced. Now local authorities make greater use of Home Repair Assistance, which is a grant with a maximum of £2,000. With few exceptions some Repair Assistance (RA) is only granted by local authorities to older people on means tested income benefits.

The Government is considering new powers for local authorities to enable them to give interest free loans in place of grants and for homeowners to contribute equity growth in some way to be defined. Some caution may be necessary for these loans/reversions if the borrower takes the longevity risk as all the value of the house could be exhausted. With ERMs the longevity risk is carried by the provider. The Government's aim is to move homeowners out of the grant system and towards some type of equity release. The RA grants would be retained but concentrated on very low-income earners and very poor quality housing.

An embryonic scheme - The Home Improvement Trust - acts as an intermediary between members of the public or clients of home improvement agencies and local authorities to provide independent financial advice and arrange loans for repairs - see Appendix A. This type of scheme is capable of being extended. However, the real need is for providers to devise simple efficient mechanisms for small loans.

Part B Product Types

B1 Broad Groups

Perhaps the most efficient way of releasing equity from the house is to sell the house and buy a smaller property and to use the balance of the proceeds to support a more comfortable standard of living. Though many people accept the logic of this approach few people trade down. In many cases people are emotionally attached to their home and would prefer to struggle on in the family home in relative poverty. People who do trade down tend to be richer people with more valuable homes. For people with low value houses trading down may not be an option. Even when people move house in retirement they tend to buy new houses in the same price range as their old home. For people who cannot or do not want to trade down the alternative is to use an ERM.

Essentially there are two broad types of ERMs. Type 1 is an instrument such as a mortgage or reversion to release capital. (In some reversion plans the capital can be taken as a fixed number of yearly instalments.) The capital is due for repayment on the death of the planholder or if he moves home or enters a nursing home. The plan can be arranged on 'last survivor' basis and there are facilities to transfer the plan to a new home if the plan holder moves home. Interest on the loan can be repaid yearly or can be rolled up and the accumulated amount paid when the capital is repaid.

Another variant of an ERM was a Shared Appreciation Mortgage. The planholder took a loan for a capital sum and the loan was repaid, not with accumulated interest but by the return of the capital plus a share in the capital appreciation on the house.

Type 2 is an ERM developed in North America known as a 'reverse' mortgage or a 'draw down' mortgage in UK parlance. The first UK scheme on a draw down basis has now been established. In essence the scheme is a roll up mortgage. The planholder effects a mortgage and can take a capital sum or a lifetime income. There is considerable flexibility on taking money from the mortgage provider in instalments. The loan is increased by interest additions and is repaid on death or an earlier defined event, e.g. moving to a nursing home.

B2 Type 1: ERMs (mortgage based) - Home Income Plans

A Home Income Plan was based on a Type 1 ERM and the whole or part of the capital was invested in an immediate annuity paid over the lifetime of the planholder or until the death of the last survivor in joint cases.

In early versions of the Plans the mortgage was at variable rates of interest that were changed regularly according to the short-term money market. Mortgages now are usually on a fixed rate of interest, which is guaranteed over the whole term of the contract. The annuity generally provides a fixed level of income until death. Home Income Plans have virtually dropped out of existence since tax relief on the interest paid on the mortgage (MIRAS) was abolished.

The planholder is not required to invest in an annuity. He can take the capital released by the plan and use it as he or she pleases - there are normally few restraints.

The mortgage is generally arranged on an interest only basis with the loan being repaid out of the sale proceeds of the house at the planholder's death. However, it is possible to employ a loan with capital and interest repayments, though the arrangement drastically reduces the net income to the planholder. Home Income Plans are not an efficient way of producing income unless the planholders are over 75.

Concerns for the planholder

A fixed rate of mortgage interest and a fixed income annuity gives the policyholder complete security of income unless tax changes occur. However, the income does not keep up with inflation. The annuity could be arranged on an increasing basis - typically 3% or 5% increase per annum, or the annuity could be linked to the RPI index. Despite the need for an income that keeps up with inflation most people choose the fixed annuity. People tend to underestimate their life expectancy and opt for an annuity that produces a higher level in the early years.

The Inland Revenue consider part of the annuity to be a return of the capital cost of purchasing the annuity (initial cost spread over life expectancy from a defined table). The balance of the annuity is the interest content, which is taxable.

If the planholder takes the capital released by the mortgage then he or she can invest in any range of securities they choose. This plan led to the Home Income problems of the late 1980's. The proceeds were invested in equity stocks or Investment Bonds put forward by the provider, or another bond recommended by the agent. When the market collapsed the investment value was less than the mortgage loan. In those days Home Income Plans were arranged on a variable rate of interest and the income from the investments was insufficient to meet the interest on the mortgage.

Concerns for the provider

The provider takes the longevity risk (the risk that people will live longer than expected) and will use a mortality table that assumes improvements in annuitant mortality in the years ahead. Many insurers have `made mortality losses in the 1990's due to mortality improvements - the losses were principally caused by improvement in mortality in the 55 to 75 age range. Though there have been improvements at the older ages they have been less drastic.

The provider will have to reinvest the mortgage purchase price in securities that produce capital and interest to meet the annuity payment. Some mismatching could occur if longevity improves faster than expected. The provider can get some protection from large longevity improvements through reinsurance.

In 1990 the financial service regulators outlawed the combination of an ERM serviced by non guaranteed investment product.

The beneficiaries of a planholder's estate are naturally upset if the planholder takes a large mortgage, and then dies within a short time when only a few annuity payments have been paid. To avoid adverse criticism providers encourage planholders to effect annuities where payments are guaranteed for a period of years, or a capital protected annuity, when the balance of the purchase price is refunded to the planholder's estate when he or she dies.

B3 Roll up Mortgages

Under some ERMs there is no requirement to pay interest, the interest is rolled up and added to the outstanding value of the loan. No payments are made on the mortgage until the property is eventually sold at the planholder's death. Some schemes are offered on a fixed rate of interest on the mortgage, but others are on a variable rate as providers consider the investment risk to them to be too severe (often with a cap on the highest interest rate).

Concerns for the planholder

The planholder has the choice of taking a capital sum or an income. He or she can choose an income fixed in amount or a lower income that increases each year.

If the planholder lives to extreme old age then the rolled up loan could exceed the eventual sale value of the house. This is an unacceptable risk for the planholder and current ERMs provide that income payments will always continue until the eventual death of the planholder, and the only recourse to the provider is the eventual sale value of the house. They have no recourse to any other assets in the planholder's estate, nor would beneficaries be expected to meet the shortfall.

The amount that can be borrowed is normally restricted to a low percentage of the house so that even if the planholder lives to extreme old age the accumulated loan does not exceed the likely value of the property. The percentage varies according to age and sex of the planholder and is even lower on joint plans.

Modern plans provide a 'no negative equity' clause that guarantees the planholder can stay in the house even though rolled up loans exceeds the house value.

Concerns for the provider

The longevity risk is greater on a rolled up plan than on an interest only plan, since the provider only gets payment at the planholder's death and receives no interim interest payments.

When constructing a plan the provider will decide whether to retain the longevity risk within the provider's own funds. The reserve may need to be increased progressively if it appears that the portfolio of lives is living longer than expected.

The longevity risk can be reduced through a reinsurance programme, or a derivative can be purchased. The provider will estimate the pattern at which loans will be repaid in future years. If the planholders die earlier than expected the provider makes a profit; if they die later then a loss is made. Through a reinsuring programme, or by a derivative, the provider can swap the actual repayment pattern with an agreed, expected pattern. The provider gains more stability, but there would be a significant cost to the provider and this would be built into the pricing basis by the planholder. To reduce this cost for some providers only offer a variable interest rate product but this is often capped so that any upward movement in interest is limited.

The provider may use his own funds to finance the mortgage, but some providers securitise the loans and sell the portfolio of loans to another investor.

B4 Shared Appreciation

In the recent past it has been possible to purchase a shared appreciation mortgage (SAM) issued at one time by the Bank of Scotland and later by Barclays Bank. Both schemes have been withdrawn due to the providers being unable to attract funds from long-term institutional investors like pension funds to finance the scheme. SAM as a product was very successful and appealed to a wide range of customers and the quota was quickly sold out. If the funding difficulties can be resolved then variations of shared appreciation mortgage will reappear in the market.

The original product had two versions. In the first variant the planholder paid interest at a low rate relative to market interest rates, but the provider took a proportionate share of the capital appreciation on the house over the period of the mortgage.

The second variant required no interest payments, but the loan repayment was the original loan amount plus three times the capital appreciation in property value on the percentage advanced on the loan. The maximum initial advance for this version was 25% of the value of the house.

Concerns for the planholder

The purchasers of this plan were generally much younger than the purchasers of other ERM types and constitute the new younger generation of planholders. They wished to realise part of the capital appreciation on their existing house at the expense of future appreciation.

The plans were traded at a time when many pundits were forecasting static house price or low appreciation only in the years ahead. In practice house prices rose much higher than forecast and if the costs are translated into an equivalent rate of interest then planholders will realise that they have paid a high cost.

A major drawback to the original SAM was that it could not be transferred to a new property. This restricts the planholder's freedom to move house if his or her circumstances change.

Concerns for the provider
The success of the plan showed there is a demand for a simple form of equity release.
If the provider is unable to meet the initial advance to the planholder from its own funds the provider will have difficulty in selling on a block of loans to another investor - see Part C.
There are some criticisms in the Press already of the 'high price' to the plan holder, but the long term nature of the contract is overlooked.

B5 Type 1 ERMs (Reversion based)

In lieu of taking a mortgage an elderly person could sell their house to a reversion company, or another individual, in return for a lump sum. The lump sum will obviously depend on the value of the house and the purchaser discounts of the house value over life expectation of the planholder and rates of interest and assumptions the provider thinks will yield him or her a good profit eventually. The lump sum could then be used to purchase, in whole or in part, an immediate annuity. Some reversion providers give the planholder the option to take the lump sum in instalments over a period of years.

The planholder stays in the house rent free or for a token annual payment on a lifetime tenancy. When the property is sold, usually after the death of the planholder, the proceeds belong to the reversion company.

Sometimes reversion schemes are structured as a sale and leaseback. This is not possible in Scotland because of the 20 year time limit on residential leases.

Concerns for the planholder
Some people are uncomfortable with the concept of selling the whole of their property and use part of the house value. The reversion company takes part of the legal title to the property and gives a proportionately smaller lump sum.
A reversion plan is efficient at providing capital or an income stream. However, it means that the planholder is giving up ownership of the house, which is psychologically unacceptable to some people.

Concerns for the provider
The cost of the reversion will be based on long term interest rates rather than money market terms. The reversion company will obviously want to purchase properties that hold their value over the future. It would be fundamental that the planholder has the responsibility to keep the house well maintained and repaired.
Adequate insurance on the house is required.
The reversion provider is taking the longevity risk.

B6 Type 2 ERM Drawdown mortgages

Drawdown mortgages are called Reverse Mortgages in North America. In USA there are 125 mortgage providers which permit householders ages sixty-two and over to turn their non liquid house asset into an income producing asset.

The reverse mortgage is really a roll up interest mortgage, though most plans are for a limited period of years. Some plans (Trans America House Money Lifetime Plan) are in force for the whole of the planholder's lifetime.

The planholder can opt for a lump sum payment, a series of monthly cash advances or a line of credit to take when needed, or any combination of these options. Under a credit line scheme the planholder is given a cheque book. Any time he or she wants money they simply write a cheque for any amount above $100, subject to the credit limit. The maximum credit line is normally increased by a growth factor linked to house price appreciation, but in some schemes the credit line is a fixed cash limit.

The rate of interest paid on a home reversion depends on the provider. Typically the rate is 3% above the prime money market rate and is monthly. Rates can vary 1.6% above Treasury Bill rate to 5% above - depending on the fee structure and type of plan.

In the USA all reverse mortgages are non-recourse loans, the borrower can never owe more than the house is worth. The provider cannot pursue the planholder's estate, his or her heirs or family members for any deficiency, or have recourse to planholder's income or other assets. As in the UK planholders cannot be forced to vacate their homes even after they have completely exhausted their equity. The mortgage provider must continue making the income payments to the borrower even after the rolled up loan value has exceeded the value of the home. Similar undertakings are given on the drawdown mortgages (Home Equity Release Mortgages) issued by Northern Rock in the UK. Draw down mortgages are relatively simple products and appear to give better value for money than rolled up interest mortgages in conjunction with an immediate annuity. The product fits within the current regulatory framework and the administration and management systems are consistent with those of other mortgage products. It is perhaps surprising that the concept has been slow to develop in the UK.

A more detailed explanation of Reverse Mortgages is shown in Appendix C.

B7 Features and Conditions of ERMs in the UK

- In most cases the income from the plan continues during the life time of the planholder, or until the death of the surviving partner in joint cases. There are a few arrangements in the UK where income is limited to a certain number of years.
- Recent ERM products are generally on fixed rates of interest. When a variable rate of interest is used in an ERM it will be capped for the full term of the contract.
- The property must be the planholder's main residence where he or she lives and must be in good condition (or agreed repairs will be made from a release of capital). The property should not be sheltered accommodation.
- The property must be mortgage free, or if there is a small mortgage outstanding it must be paid off. Funds released under the ERM could be used to extinguish any existing mortgage.

- If the property is leasehold the remaining term of the lease has to be long - typically 60 or 80 years.
- A minimum valued house is stipulated by providers for use in an ERM - the minimum varies according to provider and the range is £20,000 to £60,000 with the average minimum limit at around £40,000. It is possible to use only a proportion of the house, but there is generally a minimum sized loan, mostly around £20,000 - £25,000 though some providers have a minimum loan size of £10,000. Further loans can normally be granted if there is sufficient equity remaining in the house.
- The minimum age of a planholder is generally 65 or a combined age of 135 for a joint ERM.
- The applicant is usually required to pay a valuation fee for an independent survey, for an estimate of the house value and to pay for his or her own legal fees. Most providers require an application fee, to cover their legal and administration costs, in some form to cover the provider's costs. A fee is generally required if the ERM is ended other than by death or by moving to a nursing home.
- The maximum percentage advanced under a rolled up mortgage or a reversion is a function of age, sex and the discount rate (based on long term Government securities with an added margin to the provider).
- The planholder is required to keep up the property well maintained and in good repair. In some cases the provider can step in to effect the repairs if the planholder fails to do so.
- The planholder is required to keep the property comprehensively insured and is responsible for Council Tax.
- The ERM can generally be transferred to a new property, providing it fits in with the providers lending criteria (this was not the case with SAMS). If the new property is of lower value the provider may require part of the loan to be repaid.
- The loan is repaid on death of the surviving partner or on sale of the house. In these days of rolled up mortgages there is a 'no negative equity' guarantee - the provider bears the loss if on death the value of the house is lower than the accumulated loan. On income producing plans the income continues even though the accumulated loan is above the house value.
- A summary of the various ERMs in the UK market is contained in Appendix 2 - 'Age Concern: Raising Income or Capital from your home'.

B8 Other variations of ERMs

Hartrigg Oaks was the first 'Continuing Care Retirement Community' in the UK. Hartrigg Oaks is sponsored by the Joseph Rowntree Foundation. Continuing Care Retirement Communities are common in the USA and some countries in continental Europe.

Hartrigg Oaks provides an environment where residents can lead entirely independent lives safe in the knowledge that care support is at hand if it is needed. There are also extensive communal facilities and opportunities for leisure activities.

Incoming residents purchase a bungalow in the Hartrigg village when they are in good health. If care support is needed it is normally provided for residents in their own bungalow, which is linked through an alarm system to the Oaks Centre. Only when the care needs reach a high level deemed at more than 21 hours of support a week is consideration given to moving the individual to a room in the Oaks Centre. The Oaks Centre is equivalent to a nursing home. The Oaks Centre can also be used for respite and rehabilitation care.

There are two sets of fees to cover the community costs - a Residence Fee and a Community Fee. There are three methods of payment for each Fee.

Residence Fee

A refundable (one off payment) can be paid. This is the purchase price for the occupation of a bungalow and the use of a room in the Oaks Centre if required. On death of a resident, or on earlier withdrawal, the full fee is generally repaid - a monetary amount and not the current value of the bungalow. Repayment is not dependent on selling the bungalow to an incoming resident.

Alternatively, a non-refundable fee (one off payment) is paid on entry. This is equivalent to a reversionary cost of the Refundable Fee and is based on the individual's age at entry. Apart from part refunds if a resident should leave within 56 months no refunds are paid on death or withdrawal.

There is also the option to pay monthly payments equivalent to a rent.

Community Fee

The Community Fee covers the cost of running the Hartrigg Oaks complex, and secondly contributing to the care costs. Again there are three options for paying this fee:

> The standard fee which is calculated on a pooled basis and so the level is independent of the actual care support the individual receives. The standard fee is based on the individuals age at entry.
>
> Alternatively, an individual can elect to pay an additional non-refundable capital sum on entry and then a reduced annual Community Fee.
>
> If a resident prefers not to participate in the standard arrangement (or if health criteria are not met) care services are charged on a pay as you go basis. There is also a fixed sum for each year to pay the Community running costs.

The residents have a range of choices - at one end they can enter on a part rent basis with a pay as you go system for paying for care. At the other extreme they can pay a capital sum for occupancy and future care costs.

The most popular combination of payment is the Refundable Residence Fee together with the Standard Community Fee.

Many of the incoming residents of Hartrigg Oaks already own property and are in effect 'trading down'. They sell their existing house and buy the right to occupancy of the bungalow and either retain the cash balance or use it to secure care services for life (irrespective of the actual support the person needs later). They can pay the reversionary cost only of the bungalow under non-refundable basis of Residence Fee.

The financial viability of Hartrigg Oaks is then dependent on whether the community fees plus the capital appreciation on the Refundable fee basis and the full value of the bungalow on the non-refundable Residence Fee basis are sufficient over the long term to cover all the running and care costs and give them an interest return on the capital cost of establishing the village.

The Rowntree Foundation see virtue in establishing a strong community in Hartrigg Oaks and hope that members will form a mutually supportive and caring community where a strong neighbourhood network will be established.

From a financial point of view it is not necessary for all the members to be in the same community - the person's house, the care provider and the promoter of the scheme could all be at different sites. It would be essential that the care provider can actually deliver high quality care in the home (or make suitable arrangements if entry to a nursing home is required at some later stage). The individual could remain at home and receive domicillary care - the capital costs could be arranged by a standard equity release product.

Some commercial organisations are now offering a service where a person can choose to live in one of a variety of property types at different locations. The scheme is open to people over 65. A lump sum entry fee thus secures a lifetime guarantee of occupancy and the individual has the choice of either independent or property management provided by the organisation. Care services can be arranged on a pay as you go basis.

The purchaser of this type of plan is generally 'trading down' from the existing house and then is only paying the reversionary value for the right to live in a new property. The new property is generally sited in a location that will appeal to retired people.

B9 ERMs and Long Term Care

The use of an Equity Release plan to finance a prepaid long-term care policy is not popular in the UK and there are no formal schemes that combine the two products.

An enhanced annuity (impaired annuity) where a relatively high amount of annuity is granted to a person in ill health is becoming used more frequently. These products are generally effected when a person has to enter a nursing home, or if substantial amounts of domicillary care are required. The annuity continues for the rest of the person's life and is a contribution to the continuing care fees. An ERM can provide the cost of the enhanced annuity and so the sale of the house, or the use of personal capital can be avoided. This combination of plans replaces an uncertain future flow of money to cover care costs with a quantifiable amount of capital.

There are no formal schemes linking ERM with the cost of acute private medical treatment. One provider reports that a small percentage of ERMs is used to cover the cost of private medical treatment for procedures which have a long waiting list on the National Health Service. The amounts involved are relatively small and normally well within £10,000. Perhaps this points again for new ERMs that provide relatively small capital sums.

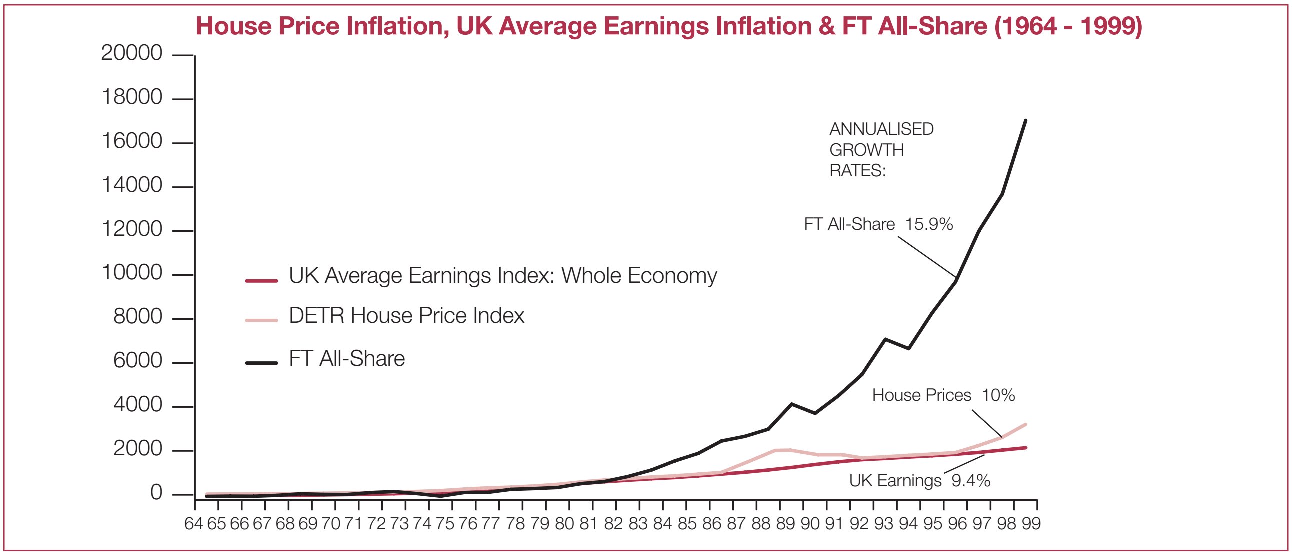
Part C Funding Issues

C1 House Price Growth

Pension funds already invest the securitised interest bearing bonds that back traditional mortgage types. The bonds are attractive to pension funds and Life Offices since they are long dated and fit in with their asset/liability matching requirements. In theory pension funds and Life Offices would find funding of ERMs that reflect house prices an attractive investment. House prices have moved up steadily in line with average earnings growth over a long period of years. Figure 1 shows the movement of residential property and equity share prices over the long term. Though house prices were generally ahead of earnings growth, if property was purchased at peak times, early 70's, late 70's and early 80's and late 80's, then for some years thereafter earnings moved ahead of house price movement.

Over recent years the gap between house prices and earnings appears to have widened. This may be due to lenders granting loans on joint male and female incomes, and with more females working the joint incomes are increasing and maximum loans granted are also increasing. Hence, there has been more upward pressure on house prices. The link between house prices and earnings can be distorted by other factors: divorce rates, greater mobility, removal of MIRAS etc, but historically there has been a long-standing correlation between the two.

Figure C1 To show residential prices and equity shares compared to earnings index



The most extreme downward movement in house prices occurred in the early 90's when prices dropped from the high values of the late 1980's. Nevertheless, the fluctuation in house prices is considerably lower than the fluctuation in equity prices.

Over the long term past the growth of equity stock has kept well ahead of earnings inflation. It has also outstripped the growth in residential property. The pension fund investor would look for extra interest income from residential property, or some other advantage, to compensate for the lower growth. There is far less day to day volatility with house prices compared to equity stock and the combination of some growth prospect and some stability may have attractions for a relatively mature pension fund. The requirement of the Minimum Funding requirements for pension funds as they now stand inhibits some pension funds from the large scale investment in equity stock. Pension fund managers may find residential stocks or mortgages related to residential property relatively attractive, as there is little fluctuation in asset value and the opportunity for reasonable interest earnings.

C2 Investor Requirements

For asset/liability matching residential properties are a suitable investment for many pension funds since their liabilities are long dated and many funds have no immediate liquidity problems, since income exceeds pension outgo for many years ahead even if the fund was closed. In practice pension funds have not invested heavily in residential property - either property to rent or the few securitised loans linked to property values that exist.

Pension funds are free to invest in Property Unit Trusts (PUTS) and Life Managed Property Funds (LMPFS). Life Offices can invest in off shore PUTS. Up to now these pooled vehicles have concentrated on commercial property or land. Fund managers would welcome a vehicle that invests directly or indirectly in residential property since they would be able to diversify their investment risk. (In USA roughly 20% of all property investment by institutions is held directly or indirectly in residential property.) Fund managers are unlikely to want to manage a portfolio of residential properties and would want to use a vehicle that was indirectly managed by independent property managers. Though there have been improvements in residential property management in UK in recent years and a Code of Practice was established in 1988 many observers feel it is not as efficient or cost effective as, say, the USA.

C3 Investment Vehicles

Though a number of vehicles exist for investing in property, in most cases investment is in commercial property, but residential property could be included. A vehicle could also invest in mortgages or securitised blocks of mortgages, which could be linked to house prices. The Housing Investment Trusts (HITS) were promoted by Government to specifically encourage investment in residential property. For the range of vehicles for investment in the UK property, see Figure C2.

None of these vehicles completely satisfy the needs of pension fund managers who require a vehicle which is:

1 Close Ended (a fixed number of shares are issued).
2 Tax Transparent (the avoidance of double taxation and the investor put in the same position as if he had invested directly in property.
3 Tradeable (a listable stock which can be traded freely).
4 Performance Measured (a fundamental requirement).
5 Low transaction costs (property has much higher costs compared to equity investment).

Pension fund managers seek a tax transparent vehicle because they feel there is a tax leakage in most of the other vehicles listed in Figure 2. The Investment Property Forum and others promoted a submission to the Treasury which outlined a securitised property investment vehicle. The arrangement was claimed to be tax neutral taking into account the range of investors including personal investors. Pension funds do not pay tax on the investment earnings and gains from direct property investment. Pension funds, and to some extent Life Offices, would suffer if currently owned properties were put into a new vehicle, unless the structure of the vehicle allows income to pass straight through to the investor. The proposal was rejected initially by the Revenue who considered that there would be a loss of taxable revenue and investors would use the vehicle to move to an overall lower tax position.

Revised proposals are being put forward to the Revenue and perhaps one could be to limit the vehicle to certain types of investor such as pension funds or Life Offices.

Fig C2 Vehicles for indirect investment in the UK property market

Property companies	Investors in listed property companies suffer double taxation on income and capital gains. As such, whilst property companies are securitised vehicles, they are not tax efficient relative to direct property investment.
Unauthorised Property Unit Trusts (PUTs)	PUTs are collective investment vehicles designed to enable UK tax-exempt institutions (charities and pension funds) to gain the benefits of pooling and specialist management without losing their tax-exempt status. PUTs are not listed and whilst secondary trading does exist, liquidity is low.
Authorised Property Unit Trusts (APUTs)	APUTs permit direct investment in a diverse portfolio of properties. Units are created by the manager of the fund, trustees are paid and the units are then issued openly. APUTs pay tax on income at the basic rate with investors receiving imputation credits. A relatively heavy regulatory framework has restricted liquidity.
Property Investment Trusts (PITs)	PITs are listed investment trust companies which specialise in property investment through portfolios of listed property shares. Whilst PITs are exempt from capital gains tax on shareholdings, they are subject to corporation tax on assessable income, with shareholders receiving imputation credits. Consequently PITs suffer some tax leakage on the income side in comparison to direct property investment. PITs have only a limited ability to invest directly in property as they must maintain set levels of investment in approved securities in order to retain their investment trust status.
Housing Investment Trusts (HITs)	In 1996, the Government created Housing Investment Trusts (HITs). These were designed to confer tax transparency on residential investment vehicles and provide liquid securitised vehicles which were not double-taxed. The removal of Advanced Corporation Tax as well as the wide range of restrictions imposed on HITs, including value limits and time limits on the stocking of the fund, have deterred investment.
Limited partnerships	A UK limited partnership is a vehicle in which those partners who do not participate in the management of the business have limited liability. The partnership is regarded by UK authorities as fiscally transparent. However, the number of investors is limited and partnerships cannot be traded on the Stock Exchange.

C4 USA Vehicles
UK investors are looking for the equivalent of Real Estate Investment Trusts (REITs) which are widely available to individual and corporate investors in the USA. To obtain advantages under Internal Revenue Code the REIT must be a property investment corporation or trust whose shares are transferable. A minimum of 100 shareholders is necessary, but no more than 50% of shares can be held by 5 or less shareholders.

At least 75% of total assets of a REIT has to be held in property and borrowing is restricted to 50% of market capitalisation. REITS can invest in mortgages. 75% or more of gross income must be derived from rents or interest on mortgages granted. Dividends must be maintained at 95% of income. If REIT status is established then the corporation is exempt from paying corporate income tax to Internal Revenue Service. However tax is levied in the shareholders' hands and not within the vehicle. However, the REIT corporation cannot pass tax losses on to its shareholders.

C5 Tradeability
The availability of a liquid and transparent secondary market is an important pre-requisite to entice serious interest in any new instruments by pension fund investment managers, and, to improve their marketability, some of the risks would have to be unbundled and taken by others (e.g mortality risk, which sits more comfortably with the Life Offices). The definition of a liquid market is also open to interpretation, but is unlikely to be less than £1 billion and with at least 50 participants. If the instruments are not traded very often, then both these numbers would have to be larger so as to ensure that 'indicative' prices were prices that one could actually trade at.

Although pension funds are traditionally about long term investment, in practice many schemes are maturing to the point where pension outgo often exceeds investment income and there has to be flexibility to realise capital at short notice. Another 'horizon-shortening' factor is the influence of the benchmark against which the institutional manager is being measured, and remunerated. If he feels these new instruments under-perform in the short term, even though they remain attractive in the long term, he or she may be put off, because the net effect (in the short term) will be to dilute total fund performance and he or she may not be around when the eventual pay-out comes through. This is one of the factors which has held back private equity - short-termism makes investments risk averse.

From an investment manager's point of view, one can't overstate the influence of benchmarks in terms of asset allocation choices. If the benchmark doesn't include residential property, it won't get the attention it deserves, and if it's a hybrid, it will fall between two stools and become an 'orphan' asset class, (which was largely the fate of SAMs). But this is a chicken and egg situation. Benchmark compilers (e.g. the IPD property series) won't include residential property unless there is an investment following and market demand for it. If, as seems likely, the instrument is a bond then IPD might not be the most appropriate benchmark since it tracks only direct investment - i.e. equity. Presented as a bond, then the main benchmark would be JP Morgan or Salomons, but the appeal then would have to be to fixed income portfolio managers not property managers.

Ironically, because residential property is relatively lowly correlated with commercial property, it is the good diversifier in a property portfolio. The challenge therefore is to produce a securitised product (based on residential property) of sufficiently wide appeal for a liquid secondary market to develop, ideally with daily quotations (indicative or otherwise), which the benchmark compilers are prepared to incorporate in their benchmark before market demand has taken off.

It is clear that if the needs of pension fund managers for close-ended tax transparent, tradeable, performance measurable and low costs are to be met then some kind of securitised property vehicle is essential. Without the vehicle investment in property generally will be restricted, new funding mechanisms for ERM will fail to be developed and a valuable service will be denied to elderly people.

C6 Indices

There is no recognised Government index akin to the Retail Price Index or the Earnings Index. However, Halifax plc and Nationwide Building Society produce indices based on mortgage completions, but they may contain some statistical bias (they may be slanted to certain geographical regions or certain socio/economic groups.

The DETR publishes an index collated by the Council of Mortgage Lenders based on a sample of mortgage completions from 50 lenders. This index could be developed to produce a formal index subject to enough cases being included.

The Land Registry records all property transactions over a given quarter, using this data to publish regional house price information. This would appear to be the logical area to create formal Government sponsored property index. More property detail may be required for each transaction and any index or series of indices should show regional variations - the variations are considerable.

The performance of a portfolio of residential properties could be measured by valuing the residential properties of a 3-year rolling basis, a measure based on purchase values. 3 year assessed values and sales values would show investment performance and this could be compared to a standard index (if a suitable one existed). In comparing the performance of a pool of residential properties with another fund it would be necessary to have a common and consistent standard of valuation.

Government should sponsor the creation of a residential property index or indices. One can envisage that with outside and independent assistance that a Land Registry/Actuaries set of indices for a residential property index could be constructed akin to the FT/Actuaries index. Different indices may be required for different locations and property types.

C7 Management of Residential Property

Organisations that become involved in partnership of residential property, part ownership or mortgages on residential housing would generally not wish to be involved in the direct management and maintenance of the property.* They can foresee disputes and difficulties on individual properties and they probably are not equipped or have the expertise to tackle the problems.

Management of residential property is a specialised and labour intensive task and organisations would prefer to appoint property managers. Investors may prefer to invest through some intermediate company, suitably skilled, and the investor organisation would then receive an income stream from the intermediate company. This may be important if the organisation wants to protect its image and to avoid any conflict situations with members of the public.

Management of residential property is bound to be more expensive than commercial property. Some organisations have contracts with property managers who are incentivised through fees to keep the property maintained and the value of the properties in line with a suitable index.

C8 Securitised Mortgages

Even if a securitised property vehicle was developed it is not clear if a securitised block of mortgages linked to house prices within the vehicle could be counted for solvency purposes by Life Offices. Pension funds are allowed to invest in such securitised bonds but have shown little appetite for them as seen in the lack of response for securitised bonds backing Appreciation Mortgages (SAMs). The view has been put forward that as the fund managers investing for pension funds are essentially the same people who invest in Life Office funds, they do not focus attention on SAMs. (They also suffer because they are not tradeable and no secondary market exists.)

*Financial Institutions and private rented housing - ADH Cross and Peter A Kemp 2,000

For Life Offices SAM securitised assets would not qualify as a 'permitted derivative contract' and would not be 'property by reference to which benefits may be determined'. It would not be possible, therefore, to issue a unit linked policy linked to securitised blocks of SAM assets, as under the Insurance Company Acts these assets are not deemed appropriate for linking to a policy.

SAM securitised assets could be held in respect of non-linked life business, but the assets would not be admissable and count towards solvency, and this is an enormous drawback.

These securitised assets would be deemed to be quasi derivatives under Regulation 56 of the Insurance Company regulations. The regulation on the admissibility of derivatives and quasi derivatives are linked from the provisions of Third Life Directive. The interpretation of the Regulations in UK from the Third Life Directive is much more severe than other countries and excludes a wide range of derivative types. The Insurance Companies Regulations were formed in 1994 when SAM securitised assets had not been conceived. It appears that the Regulations have fallen behind the valid developments in the market. There is no evidence that the Directive intended to prevent Life Offices investing in this type of security or that it intended to hold back the development of new concepts like SAMs.

It appears necessary for the Government to reconsider its interpretation of the regulations on admissibility of assets. Unless there is some review of the interpretation, SAM products and other new products will not develop and a service to the elderly people, who have equity in their homes, will be denied. The different treatment of SAMs for solvency purposes for Life Offices and pension funds appears highly artificial and unwarranted.

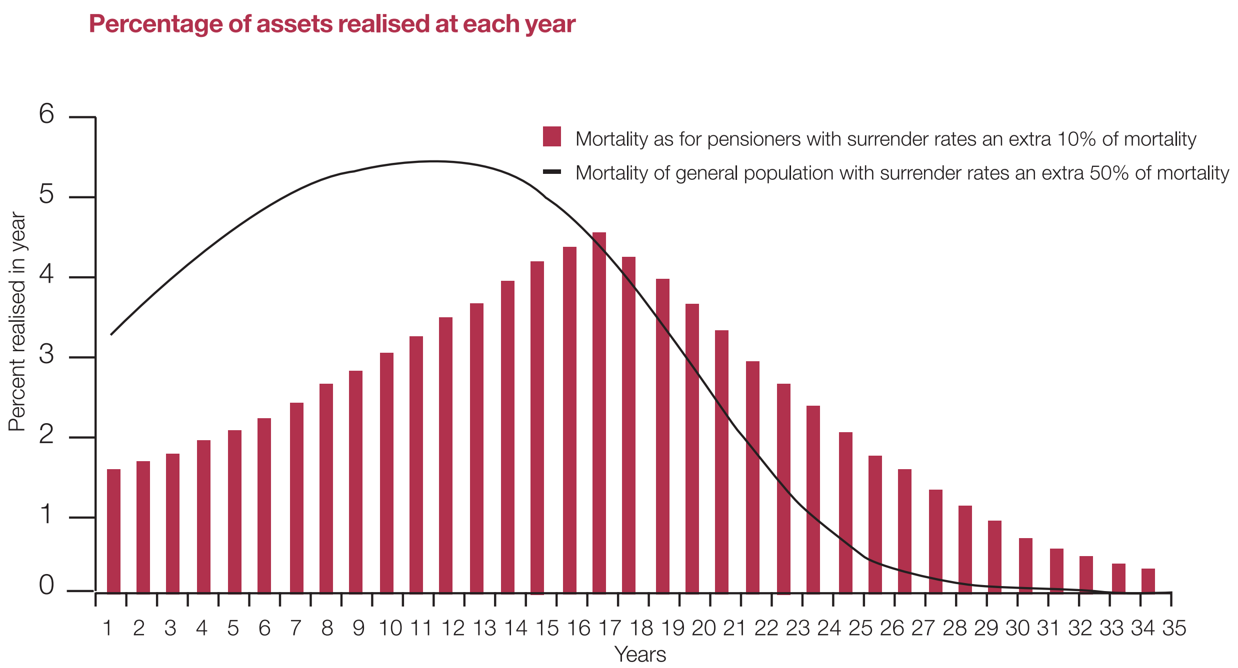
C9 Length of ERMs

Investment in a block of equity release products is essentially long term. Though the people in equity release schemes are old and some in time will voluntarily exit from the scheme to enter a nursing home or live with the family the average stay is likely to be 10 - 15 years.

At this stage there is little information on the mortality or exit patterns of people in equity release schemes. In Fig C3 two extreme examples are given to show possible patterns from deaths and voluntary exits.

If the mortality of people taking ERMs was similar to that of people retiring from occupational schemes and if there was a low rate of voluntary exits (surrender rate equal to 10% of the mortality rate) then the peak of redemptions is around 18-20 years. Whereas, if the mortality rate was similar to that of the general population coupled with a high rate of voluntary exit (surrender rate equal to 50% of the mortality rate) then the peak is around 12 years. The average durations vary considerably between the two examples and the exit assumptions would significantly affect the pricing and the matching requirements of the investor.

Figure C3



C10 Property Index Certificates

Theoretically ERMs could be financed by a variant of Property Index Certificates. These are short dated bonds which are linked to an index of commercial property. The bonds produce a coupon equivalent to the yield on the index and a capital gain (loss) equivalent to the movement of the index. An equivalent vehicle linked to residential property is possible but the bonds are short-dated - typically 5 years or less and unsuitable for matching an ER product. There is no guarantee that further PIC would be issued to provide for the balance.

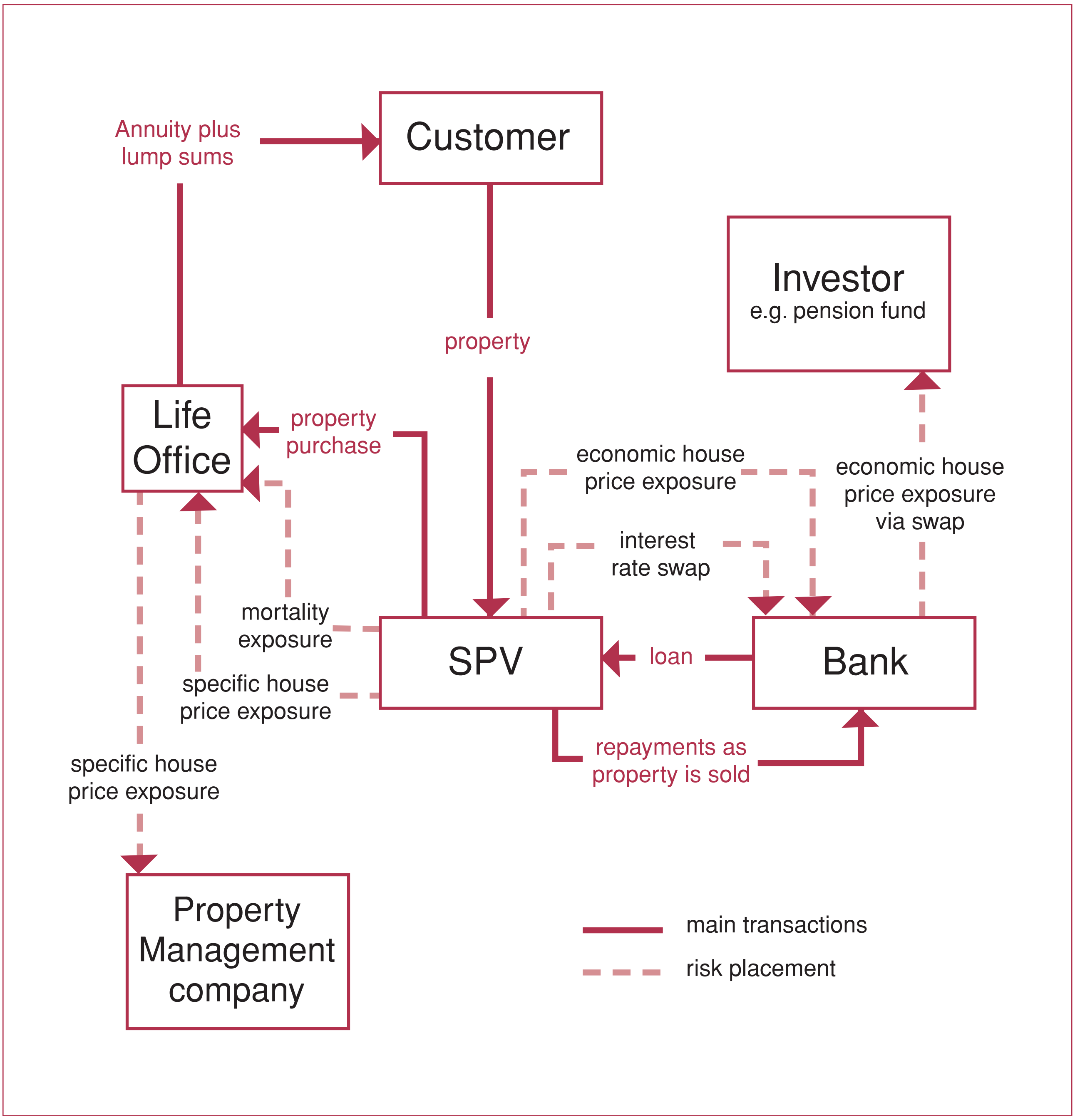
C11 Special Purpose Vehicles

For some products like reverse mortgages the provider's own funds could be used to finance the release to the customer. Even so, the provider may wish to securitise the individual accounts and pass them down to another institution. Other long term equity release schemes, roll up basis or on a reversionary basis, do not necessarily fit in happily with the institution's balance sheet for the normal business and the institution will want to pass them to long term investors.

To issue a securitised block of mortgages or reversions within the current regulations and to satisfy investors' requirements the provider has to create a Special Purpose Vehicle and then unbundle the product into constitutent parts and risks. The pure investment part can be securitised and the provider retaining the risk reinsures or buys appropriate derivatives to cover the exposure to house price movement, interest rate and mortality. The covers required will depend on the type of ER product.

The complexity of this type of arrangement adds to the cost of issuing a securitised bond and reduces the value for money to the customer. Derivatives were hard to place and the quality and backing for derivatives were not satisfactory for some investors. However, some derivative writers now in the market are of AA standard. There is a need for highly rated life and property reinsurers to cover some of the unbundled risks of ERMs. The type and capacity of cover will have a significant influence on the design of ERM products, and not just the mortality part. A SAM bond was a bundled risk and the long-term investor took the redemption, interest rate and house price risk. These features plus the lack of market ability may explain why the take up of SAM bonds by long term investors was slow.

Figure C4 Funding Arrangement - risk placement



Part D Recommendations

1. Providers should give better explanations of the ERM and the advantages and disadvantages, risks and safeguards. Providers need to develop structures so that people can be confident that the arrangement is safe if the provider is bought or sold, or goes into liquidation.

2. Value for money and confidence could be improved if more major financial institutions come into the market with competitively priced products. New improved products are required to suit a larger sector of the population.

3. The Financial Services Authority should bring in regulation to cover all types of ERM and introduce CAT marked standards on a voluntary basis.

4. Financial advisers should extend their advice to ERMs when considering retirement and inheritance tax planning, and also how ERMs can assist (or otherwise) in planning for long term care costs. More training and knowledge on ERMs is required by financial advisers.

5. New products at appropriate margins are needed so that elderly customers can afford home repairs, improvements and maintenance. CAT marking is essential to give these customers confidence and so that the administration cost can be kept to a minimum.

6. Long term investors and the Treasury should work together to develop a special purpose investment vehicle so that the long term investors can invest in residential property and mortgages on residential properties.

7. Government should reconsider the interface between income from ERMs and means tested State benefits. The equivalent of pension credit for people with income just above the Minimum Income Guarantee should be extended to income from ERMs.

8. The definition of quasi-derivatives under Regulation 56 of the Insurance Companies Regulations should be reviewed since the current interpretation has fallen behind valid developments in the market.

9. Government should encourage and promote indices to show the change in value of residential properties. Research is required on how this could be accomplished. Several indices may be required for geographical area, type of property and age of owner.

Conclusion
There is a clear need for a service which would help older people of moderate means and with low/medium priced houses to supplement their income, to raise money for capital needs and generally improve the quality of their lives. We believe that if the recommendations are adopted many other people would benefit because they would have the resources to exercise more choices and would have the means to arrange their affairs and choice of life style more satisfactorily.

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Appendix A - The Home Improvement Trust

The Home Improvement Trust (HIT) is a 'not for profit' organisation based in Nottingham. The Trust has been working successfully with Lenders, Local Authorities and Home Improvement Agencies (HIAs) to make Equity Release more available for older homeowners and those with severe disabilities. The aim is to release some of the equity tied up in the home. The loans are specifically to fund works, repair and improvements to the home and are not intended to provide a source of regular long-term income.

The Trust

- Can put forward a range of suitable ERM solutions.
- Operates with specifically negotiated exemption under the Consumer Credit (Exempt Agreements) Order 1989, which means a simpler process.
- Arranges for the clients of the HIAs to have access to an Independent Financial Adviser to provide advice, free of charge, on the different options and whether they are appropriate to meet the circumstances of the borrower. The Trust ensures that these IFA recommendations including both the recommendations and the implications are confirmed in writing. Before committing themselves in taking out an advance, the borrower is asked to confirm that they have discussed these implications with their family.
- Operates a Freephone Helpline for further information for the HIA Client and their family.
- Organises a competitive property valuation service in conjunction with the Valuation Office, which provides national coverage.
- Provides a competitive, centralised legal service through the Trust solicitors.
- Gives lenders confidence as to the application of their funds through the distribution network organised by the Trust and provides economies of scale in a sector where previously there was a reluctance to lend.
- Provides a valuable service to assist Central and Local Government, whereby public funds may be supplemented by private funding through the work of the Trust.

All lenders associated with the Trust are regular Banks and Building Societies who provide a guarantee of no repossession whilst ever the original borrower remains in occupation.

Lenders are generally reluctant to develop equity lease products or loans for elderly people because

- Older people generally want small loans which make expense rates appear high.
- Small loans require as much paperwork, scrutiny and administration as larger loans.
- Older people require more meetings and discussions before they make a decision than younger borrowers.
- Lenders fear adverse publicity or complaints from relatives.

The advantage to the Lenders of the HIT arrangement is that HIT carries out all the routine work of issuing a loan and provide independent advice. The cost of the HIT involvement is only £100. Other fees, e.g. valuation makes the total fee to be around £400.

Up to 1996 home owners who had restricted means, qualified under a means test and owned a house that failed a defined means test had the right to a home improvement grant of up to 100% of the cost of repairing or maintaining a property. From 1996 local authorities have discretion on giving a grant to an applicant - the fund available from central government to local authorities has been cut severely. Local authorities are generally giving home repair assistance awards up to a maximum of £2,000 and any balance has to be found privately by the individual. The HIT scheme can provide the balancing amount using the ER system which is most suitable for the individual. HIT therefore relieves Government via the local authorities of providing grants. Properties of elderly people can also be maintained at a good standard.

The scheme is a good example, capable of expansion when Government, Local Authority, mortgage providers and a non profit organisation can combine to give practical help to older people.

Appendix B - AGE Concern

Raising income or capital from your home - July 2000

Factsheet 12

This factsheet aims to provide information about schemes which enable older home owners raise extra income or a cash lump sum from their homes. It replaces a previous version dated November 1999. It gives a brief outline of how the different schemes work and also provides details of specific schemes known to Age Concern England.

Please note that while the agencies or publications mentioned in this factsheet are known to Age Concern, inclusion here does not constitute a recommendation by Age Concern for any particular agency or publication. Age Concern does not endorse any company or scheme and any company stating otherwise is making a false claim.

Those living in Scotland, Wales or Northern Ireland can obtain further specific information by contacting Age Concern Scotland, 113 Rose Street, Edinburgh EH2 3DT, tel: 0131 220 3345; Age Concern Cymru, 4th Floor, 1 Cathedral Road, Cardiff CF11 9SD, tel: 029 2037 1566; Age Concern Northern Ireland, 3 Lower Crescent, Belfast BT7 1NR, tel: 028 9024 5729.

FURTHER DETAILS OF ALL THE SCHEMES IN THIS FACTSHEET CAN BE OBTAINED FROM THE COMPANIES DIRECT, NOT FROM AGE CONCERN, BUT INDEPENDENT LEGAL AND FINANCIAL ADVICE IS ALSO STRONGLY ADVISED.

Contents

1. Home reversion schemes - how they work

The most common form of equity release scheme is a home reversion scheme which involves selling your home or a part of your home to a private company called a reversion company. In return you receive a cash lump sum or a monthly annuity income. You can remain in the house rent-free or for a nominal monthly rent, for the rest of your life. When the property is sold, usually after your death, the reversion company receive the proceeds of the sale, depending on what share of your home you sold. For example, if you sold a 50% share of your home, the reversion company will receive 50% of the proceeds when it is sold. If you sell only part of your home this will obviously mean you receive a smaller cash lump sum or lower monthly income. But when the home is sold you or your heirs will benefit from any increase in the value of the part of your home which you keep.

When you sell your home or part of your home to a reversion company you will not receive the full value that you would get if you sold on the open market. This is because the reversion company gives you the right to live in your home for the rest of your life. So you will only receive a percentage of the market value. The percentage of the value you receive will depend on your age and sex. Older people will get more than younger people and men will get more than women. This is because they have lower life expectancies. In some cases the cash sum from the sale can be 35% or less of the house value. It will rarely be more than 60%, even for people over 80.

Certain schemes may buy your home at a higher purchase price and in return you would pay an ongoing rent while you live in your home. You would need to be sure that you would be able to continue to afford this rent payment.

Some reversion companies offering lump sums aim to find a buyer for your home. Others may have immediate access to funds with which the purchase can be made. If a buyer has to be found this can delay the process. You should ask each company how quickly they can purchase your home. You may wish to make it clear that you will withdraw your application if a buyer has not been found within a certain period.

2. Home income plans - how they work

Another form of scheme, but one which has become less attractive following changes in the March 1999 budget, is the home income plan - sometimes called a mortgage annuity scheme. With a home income plan you receive a monthly income for life while still owning and living in your home. You take out a mortgage loan against your home usually up to a maximum of 75% of property value. The money is used to buy an annuity which pays you a regular income each month for life. The interest payments on the loan are deducted from this monthly income.

Home income plans taken out before 9 March 1999 were eligible for tax relief on the interest payments of loans up to £30,000 at the basic rate of tax. This tax relief is no longer available for new home income plans. This will make home income plans much less financially attractive to most people, although they may be worth considering for people in older age groups, for example over 80. People who have an existing home income plan will continue to receive tax relief at a fixed rate of 23% and will remain eligible for this even if they move home. The Government does however intend to review the way in which this relief is given. If there are further changes, up to date information will be available from the Age Concern Information Line (see section 11).

With a home income plan you do not have to make any payments to repay the capital of the loan during your lifetime. The capital is repaid from the proceeds of the sale of your home, usually after you die. You will have to take out the home income plan in joint names if you live with a spouse or if you live with anyone you consider to be your unmarried partner. You will not have to sell your home and repay the loan until after both your deaths.A home income plan usually gives a monthly income rather than a capital lump sum. You can receive a small amount of capital at the start of the plan, but this will mean you get a smaller monthly income.

3. Things to consider

It is always a good idea to get independent legal and financial advice before taking out a home income plan or home reversion scheme. Some of the things you should consider before taking out a particular scheme are:

3.1 Conditions

There are usually certain conditions which people taking out these schemes must meet. These will differ between different companies offering the schemes but may include:

- minimum age, typically 70 for single applicants and joint ages of 150 for couples, although these differ between products (see sections 4 and 5).
- maximum loan, for example 75% of the house value (70% for value of £40,000 or less)
- minimum property value, for example £30,000 or £40,000.

Some companies may only accept applications from people living in freehold houses, rather than in flats or maisonettes. Some companies will only accept applications from people whose properties have been built using concrete materials such as cement or bricks, therefore your application may be rejected if your property is wood-built, prefabricated or made from other non-traditional building materials. You should confirm this with each company you contact.

3.2 Fees

Most schemes involve paying survey and legal fees. These fees may be reimbursed by the company if you go ahead with the plan, but the position varies between companies. Some reimburse them and others do not. You should ask about all fees before making any commitment. They can vary considerably between companies.

With a reversion scheme, if you receive a lump sum you will normally have to pay an administrative fee for arranging the sale. It is important to find out exactly how much this is when making comparisons between schemes. It can vary considerably, ranging from nothing to 1%, 1.5% or even 2.5% or more of the value of the property. With reversion schemes offering annuities there are normally no arrangement fees.

3.3. Commission

If you purchase your home income plan through a financial adviser, the adviser may receive a commission payment for selling you a particular product such as a mortgage or an annuity or for selling the plan as a whole. The financial adviser should give you impartial advice about the best plan for your needs regardless of the level of commission they receive. You may wish to check how much commission the adviser will receive. Advisers are not always legally required to provide information about levels of commission on home income plans but if you specifically request such information then the adviser may provide it.

3.4. Moving house

You should check carefully whether any scheme which you are considering allows you to move in the future if this should be necessary. You may later want to sell your home and move somewhere smaller or more suitable for your needs. Some schemes will allow the plan to be transferred to another property but this will depend on the value of the new property.

You may also at some time wish to sell up completely to move into rented sheltered housing or residential care. It is important to check whether there is likely to be any penalty if the plan is brought to an end before your death.

3.5 Other changes in circumstances

It is a good idea to consider whether any other change in your circumstances may affect the plan, for example someone else coming to live with you after the plan is taken out. If a younger family member or friend moves in to provide companionship or care, the plan would still come to an end on your death or that of your partner. This would mean that the house would probably have to be sold.

If you take out the plan as a single person and later get married (or decide to live with a partner in your property), the plan may come to an end on your death, if your partner was below the age of 60 at the time they moved into your home. In this case, your partner may no longer be able to remain in the house after your death.

3.6 Life expectancy
The older you are, the larger the amount of money you are likely to receive from a scheme. This is because your life expectancy is lower. If you are very old or in poor health and your life expectancy is quite low you should think carefully about taking out a scheme which gives you a monthly income. This is because you may not be able to receive this income for very long before your death. Some providers offer “impaired life” enhancements to the annuity. With some home income plans it is possible to take out capital protection. With capital protection, if you die within the first three or four years of the scheme your heirs will not have to pay back the full amount of the loan. If you have capital protection this will reduce the monthly income you receive.

3.7 Social security benefits
People on social security benefits should think carefully before taking out one of these schemes. If you are receiving a means-tested social security benefit such as Income Support or Council Tax Benefit, the weekly income from any of these schemes may affect your entitlement. You could therefore lose some or all of your benefit. Losing all of your benefit would probably mean having to pay more for various things such as dental treatment and glasses and you would lose any rights to grants or loans from the Social Fund. It is important to be sure that the extra income from the scheme will be enough to make up for any loss of benefits and related entitlements.

3.8 Inflation
When you take out a scheme which provides an annuity income in most cases the income will be fixed for the rest of your life. This means that the income will not increase in line with inflation. You should bear in mind that this will mean that if there is inflation the real value of your income will be reduced.

3.9 Family
It should always be your own decision about whether to take out a scheme of this type. However, it is probably a good idea to discuss it with any close family members. The scheme may considerably reduce the size of your estate and discussion of plans with any family who may expect to inherit may avoid unpleasantness or misunderstandings.

3.10 Repairs and insurance
With both home income plans and home reversion schemes you will remain responsible for repairing and insuring the building. In particular, if you have sold a share in the property to a reversion company, they will expect you to maintain your home to a reasonable standard in order to protect their investment.

You will remain responsible for paying for buildings insurance and will still have to pay the Council Tax.

3.11 Other options
Raising income or a lump sum from your home is only one of the housing options which may be available for older home owners. It may not be suitable for everyone and it is a good idea to investigate other possible options. Age Concern has a range of factsheets on housing options and other issues (see section 11).

If you need money for repairs or improvements to your home, you should first read Age Concern Factsheet 13, Older home owners - financial help with repairs and adaptations (see section 11 for details of how to get it). The factsheet covers grants from the council and getting an interest-only loan from a building society.

4. Financial institutions offering home reversion schemes

INCLUSION DOES NOT CONSTITUTE A RECOMMENDATION BY AGE CONCERN AND YOU SHOULD IGNORE ANY COMPANY WHICH CLAIMS THAT WE ENDORSE THEIR SCHEME.

This information is based on details supplied by the companies listed themselves. Age Concern England makes every effort to keep this information up-to-date, but, as the situation is constantly changing, it may probably be out-of-date as regards some of the entries at any time. You are advised to check any information with the individual companies.

As the conditions offered by companies vary considerably you should get details from as many as possible. It is also essential that you seek independent financial and legal advice before making any commitment.

BPT Bridgewater (Home Reversions) Ltd., Kings Lodge, 28 Church Street, Epsom, Surrey KT17 4QB, tel: 01372 742741
St John’s House, Barrington Road, Altrincham, Cheshire WA14 1TJ, tel: 0161 929 5147.
- member of ‘SHIP’ campaign (see section 6);
- provides cash lump sum only;
- minimum age: 65 for single people and joint applicants;
- only available for houses and bungalows;
- will purchase between 50 and 100% of property’s value;
- normally possible to move to a property of equal or lesser value in the future;
- no arrangement fee;

- reasonable valuation and legal fees refunded on completion of purchase;
- available for properties in England and Wales.

Brent Reversion Services Ltd, 47 Fore Street, Ivybridge, Devon PL21 9AE, tel: 01752 893045.
- provides lump sum;
- minimum age: 67 for single people and joint applicants;
- people who subsequently leave the property receive a further lump sum;
- it is possible to sell a proportion of the property with the option of selling a further portion later if vendors wish;
- it should normally be possible to move in the future and transfer the arrangement to the new property;
- fees are 1/2 % of the property value payable on completion; available for properties in England and Wales.

Carlyle Life Assurance Company Ltd, 21 Windsor Place, Cardiff CF10 3BY, tel: 029 2037 1725; fax: 029 2066 4440. Website: www.jhb.co.uk.
- member of 'SHIP' campaign (see section 6);
- provides annuity income, not lump sum, though it may be possible to take an initial cash sum of up to £20,000 (annuity will then be reduced);
- minimum age: 65 for single people, combined age of 138 for joint applicants (both at least 69).
- minimum property value: £40,000; maximum value: £1,000,000; percentage of property value sold can be between 30% (minimum £24,000) and 95% (maximum £500,000);
- no arrangement fee;
- available for properties in England, Wales and Scotland;
- it is possible to move in the future and transfer the arrangement to a suitable alternative.

Carlyle Life also offer a different form of the home income plan, the Fixed Rate Appreciation Mortgage Home Income Plan. This offers a lower interest rate than their traditional plan. In return when the property is sold, the full amount of the loan plus a share in the appreciation of the value of the property have to be repaid.
- interest rate at lower rate than traditional Mortgage Home Income Plan;
- minimum age: 65 for single applicants, combined age of 145 for joint applicants (both must be at least 69);
- maximum loan: 70% of properties valued below £40,000, 75% of value on all other properties;
- minimum house value £36,000; minimum loan £25,000; it should normally be possible to move in the future and transfer the arrangements to the new property;
- option of small cash sum (25% of mortgage advance, subject to a maximum of £20,000);
- available for properties in England, Scotland and Wales.

Cavendish Property Investments Ltd. (trading as Age Alliance), Cliffdale House, Cliffdale Road, 376 Meanwood Road, Leeds LS7 2JF, tel: 0113 228 4488, fax: 0113 228 4489.
- provides tax-free lump sum (or lump sum and monthly payments); minimum age: 60 for single people and joint applicants;
- it is possible to sell only a proportion of the property's value;
- the original reversionary arrangement allows a move to another property in the future;
- up to £10,000 additional payment for properties in London, Home Counties and south of England;
- up to £537.50 additional payment on completion towards legal and valuation fees;
- up to 20% additional payment if plan terminated within 20 years;
- can normally transfer the plan to another property;
- fee is 1.0% - 2.5% (plus VAT) of property value;
- available for properties in England, Wales and parts of Scotland.

G E Life Ltd, Stalwart House, Station Road, Dorking, Surrey RH4 1HL, tel: 01306 876581 or Freephone 0800 378921. (Formerly known as Stalwart Assurance).
- member of 'SHIP' campaign (see section 6);
- provides annuity income, though cash loan may also be available;
- income may be fixed or linked to the value of properties in the G E Life Equity Release Income Plan Fund, or a combination of these;
- minimum age: 65 for single people. In the case of couples both partners must be aged 70 or over;
- it is possible to sell only a proportion of the property value as the basis for the annuity, thereby retaining a proportion of the equity;
- minimum property value: £30,000;
- no arrangement fee;
- normally possible to move and transfer the plan to a new property;
- provides a capital sum if death occurs within first 3 years.

Hesketh Insurance Services, 17 Hoghton Street, Southport, Merseyside PR9 ONS, tel: 01704 545515. Fax: 01704 545445
- provides lump sum, minimum amount £10,000;
- minimum age: 65 for single people; joint applicants should preferably have combined age of 140;
- option available to sell only a proportion (minimum 40%) of the property value;
- it should normally be possible to move in the future and transfer the
- arrangement to the new property;
- home visits available to people living in the North West;
- not available in Scotland.

Home and Capital Trust Ltd. 31 Goldington Road, Bedford MK40 3LH, tel: 01234 340511.
- founder member of 'SHIP' campaign (see section 6);
- a single cash sum or series of capital payments offered;

- minimum age: 65 for single people and joint applicants;
- it is possible to sell a proportion of the property (minimum 50%) with the option of selling a further proportion later, if vendors wish;
- the original reversionary arrangement allows a move to another property in the future;
- minimum property value £50,000;
- fee is 2% (plus VAT) of value of property being sold;
- not available in Scotland.

Investment Property Reversions Ltd, 34 Hillcrest Road, Purley, Surrey CR8 2JE, tel: 0181 645 9444.
- provides tax free cash lump sum whether full or partial reversion; (lump sum and monthly payments can also be arranged);
- minimum age: 70 for single people and joint applicants;
- owners may sell various proportions of the property's value so as to
- retain some equity in the property;
- people who subsequently leave the property receive a further capital amount;
- no minimum or maximum property values;
- no monthly interest payments;
- arrangement allows a move to another property in the future whether a full reversion or a partial reversion;
- fee is 1.5% to 2.5% (plus VAT) of surveyed property value;
- not available in Scotland.

NPI In-Retirement Services, NPI House, 30-36 Newport Road, Cardiff CF24 0DE, tel: Freephone 0800 70 75 80.
- member of 'SHIP' campaign (see section 6);
- provides monthly income;
- no monthly interest payments;
- minimum age: 70; joint applicants must both be over 70;
- minimum property value: £40,000;
- minimum loan: £20,000; maximum loan: 90% of property value;
- option of cash lump sum;
- only available for properties in England and Wales;
- the arrangement allows a move to another property in the future;
- free buildings insurance for life, in most cases, after you take out the plan.

Trenchard Leigh Home Equity Release Plan, Trenchard Leigh Ltd., Garrison House, Church Street, Presteigne, Powys, Wales LD8 2BU, tel: 01544 267011.
- provides a cash lump sum;
- minimum age: 70 for single women, 69 for single men, 70 for the youngest member of a couple;
- minimum property value: £40,000;
- can sell between 50% to 100% of the property value;
- arrangement fee of 0.5% of the value of the property;
- can usually transfer scheme to another property;
- available on properties in England and Wales.

5. Financial institutions offering home income plans

INCLUSION DOES NOT CONSTITUTE A RECOMMENDATION ON OUR PART AND YOU SHOULD IGNORE ANY COMPANY WHICH CLAIMS THAT WE ENDORSE THEIR SCHEME.

This information is based on details supplied by the companies listed themselves. Age Concern England makes every effort to keep this information up-to-date but, following changes in the March 1999 budget (see section 2) there may be changes in the type and availability of home income plans. You are advised to check any information with the individual companies.

As the conditions offered by companies vary considerably you should get details from as many as possible. It is also essential that you seek independent financial and legal advice before making any commitment.

Allchurches Life Assurance Ltd, Beaufort House, Brunswick Road, Gloucester GL1 1JZ, tel: 01452 419221.
- member of 'SHIP' campaign (see section 6);
- interest rate is fixed;
- minimum age: 70 for single people, combined age of 150 for joint applicants; (both must be at least 70);
- maximum loan: 70% of the house value to a limit of £30,000;
- minimum loan: £25,001;
- loans in excess of £30,000 are individually considered;
- this Plan is available in Northern Ireland, as well as England, Wales and Scotland.

Carlyle Life Assurance Company Ltd, 21 Windsor Place, Cardiff CF10 3BY, tel: 029 2037 371725; fax: 029 2066 4440. Website: www.jhb.co.uk.
- founder member of 'SHIP' campaign (see section 6);
- interest rate is fixed;
- minimum age: 67 for single people, combined age of 145 for joint applicants (both must be at least 69);
- maximum loan: 70% of properties valued below £40,000, 75% of value on all other properties;

- minimum house value: £22,000; minimum loan: £15,001;
- it is normally possible to move in the future and transfer the arrangement to a suitable alternative property;
- option of small cash lump sum (10% of mortgage advance);
- available for properties in England, Wales and Scotland.

Hinton & Wild (Home Plans) Ltd, 4th Floor, Tolworth Tower, Tolworth, Surrey KT6 7EL, tel: 020 8390 8166 (in conjunction with Kent Reliance Building Society).
- provides monthly income;
- interest rate is fixed;
- minimum age: 69 for single people, combined age of 145 for joint applicants (both must be at least 69);
- maximum loan: 70% of property value; minimum property value £30,000; minimum loan: £15,001;
- option of a small cash lump sum;
- only properties in England and Wales are eligible.

NPI In-Retirement Services, NPI House, 30-36 Newport Road, Cardiff CF24 0DE, tel: Freephone 0800 70 75 80.
- member of 'SHIP' campaign (see section 6);
- provides monthly income;
- no monthly interest repayments;
- minimum age: 70; joint applicants must both be over 70;
- minimum property value: £40,000;
- minimum loan: £20,000; maximum loan: 90% of property value;
- option of cash lump sum;
- only available for properties in England and Wales;
- the arrangement allows a move to another property in the future;
- free buildings insurance for life, in most cases, after you take out the plan.

6. Regulation and safeguards

There is no specific regulatory body for companies selling these schemes. Companies providing an annuity income rather than a lump sum, are regulated by the Personal Investment Authority (PIA), the main body controlling insurance companies. (A new body, the Financial Services Authority, will be taking over responsibility for regulation later this year).

Reversion companies who only offer a lump sum rather than an annuity do not require registration by the Personal Investment Authority or any other regulatory body. It is therefore very important to get independent legal and financial advice. If you do decide to go ahead, always use your own solicitor.

Some companies are also members of the Safe Home Income Plans (SHIP) campaign. SHIP members agree to abide by a voluntary code of practice. The code of practice aims to ensure that companies participating in the campaign provide clearly explained written information about the benefits, objectives and limitations of their schemes.

Current members of the SHIP campaign are:

Allchurches Life Assurance (see section 4)
BPT Bridgewater (Home Reversions) Ltd (see section 5).
Carlyle Life Assurance Company Ltd (see sections 4 and 5)
G E Life Limited (see section 4)
Home & Capital Trust Ltd (see section 5)
NPI In-Retirement Services (see sections 4 & 5)
Northern Rock plc (see section 9)
Norwich Union Equity Release Ltd (see section 9)

A free leaflet giving details of the code of practice is available from the SHIP Secretary, Mark Goodale, Hinton and Wild (Home Plans) Ltd (see section 5 for the address).

7. 'Interest only' loans

You may also be able to raise capital from your home by taking out an interest only loan. With an interest only loan you take out a loan against the value of your home. You will have to make interest repayments but will not have to repay the capital until your death or the sale of your home. This will mean that you will receive a lump sum payment but will have to make monthly interest repayments. It may be suitable if you have some income to make repayments but need a sum of money for a one-off payment, such as for home improvements.

Interest only loans are available from some banks and building societies. Loans are usually given according to individual circumstances and at the discretion of the local branch manager. Lenders' policies can change from time to time so you may have to shop around to find a bank or building society which provides interest only loans. For legal reasons, most lenders do not give new loans for amounts less than £15,000. The monthly Money£acts magazine, which may be available in your local reference library, gives details of some interest only loans under the heading 'Equity Release' in their Mortgage Special Products section.

If the loan is for repairs or home improvements you may be able to get help from a home improvement agency in finding a lender. There are more details about interest only loans for repairs and improvements in Age Concern Factsheet 13 Older home owners - financial help with repairs and adaptations.

8. Roll-up loans - how they work

Another way of raising capital from your home is the roll-up loan or rolled up interest loan. With a roll-up loan you take out a loan against the value of your home. You do not have to make any repayments of interest or capital until you sell your home. Instead, the interest is 'rolled up' and added to the total loan. The full amount of rolled up interest and the loan is repaid when you sell your home.

Warning: roll-up loans can be very risky. Because interest is rolled up, the amount you owe can grow very quickly. When interest rates are high, the total amount you owe can double every five or six years.

If interest rates increase faster than house prices there is a danger of the loan starting to catch up with the property value. This might mean it would not be possible to repay the full amount of the loan when your home is sold. You might then be asked to make interest payments which can be very high. If the amount owed is £80,000 the monthly interest repayments could be over £900. This would almost certainly mean having to sell your house to repay the loan.

It is impossible to know whether, or by how much, interest rates or the value of your house will go up in the future. This means that you need to be extremely cautious about how much you borrow, especially if you are under 75. Some providers offer a guarantee that the amount owing will never exceed what the property is worth, but your ability to move house may be affected.

Because of the risks of roll-up loans Age Concern would recommend that you should always take independent advice before taking one out.

9. Other schemes

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In the recent past some banks and building societies have also offered equity release schemes suitable for older people. The market changes frequently so it may be worthwhile shopping around the various high street banks and building societies to see if there are any schemes available which would suit your needs. It is essential that you seek independent financial and legal advice before making any commitment.

Schemes that we are aware of at present are:

Northern Rock

Northern Rock offer two options: a Standard Home Equity Release Mortgage (HERM) or a Cash Plus HERM. Both are roll up loans with no interest repayments until the property is sold on your death, or if you move into long term care.

The Standard HERM is a lump sum release of equity, the Cash Plus HERM is a fixed monthly release of equity with the option of an initial cash lump sum. In both cases the amount you can borrow depends on your age and property value.

The interest rate is either fixed or capped for the full term of the HERM. There is no minimum income requirement. There is also a 'No Negative Equity Guarantee' and a guarantee of secure tenure. This means you will be able to live in your home for as long as you wish and if, when your home is sold, it is worth less than the outstanding debt, you or your heirs will not be expected to make up the difference.

A HERM will normally allow you to move home and transfer your loan on to another property but there may be a requirement to repay some of the loan if you move to a property of a lower value. If there is insufficient equity left due to falling house prices or rolled up interest, you may not be able to move.

The main details of the HERM are as follows:

- Standard HERM has a fixed rate of interest 8.20% (at July 2000) for the entire term of the loan;
- Cash Plus HERM has a capped rate of interest 8.99% for the entire term of the loan;
- The maximum amount you will be allowed to release from your property with a Standard or Cash Plus HERM will depend on the age band you belong to and the value of your property.
- The minimum age is 60 for both members of a couple.

You can obtain full details on HERM from Northern Rock PLC, Northern Rock House, Gosforth, Newcastle Upon Tyne, NE3 4PL. Tel: 0845 600 2220. Website: www.northernrock.co.uk.

Norwich Union

Norwich Union offer two schemes: the Flexible Cash Release Plan and the Flexible Income Release Plan.

Flexible Cash Release Plan: this is also a form of roll-up loan. You will receive a lump sum and will pay a fixed interest rate for the life of the loan. The interest rolls up until the home is sold, usually on your death. This means that the amount of interest to be repaid can reach very high levels, and you may lose a considerable amount of the equity in your home, particularly if property prices do not rise very fast.

The plan does provide a No Negative Equity guarantee, guaranteeing that neither you nor your heirs will be left with a debt from the sale of your property. You can pay for an additional optional guarantee which would guarantee that when your home is finally sold at the end of the plan, you or your heirs will receive 25% of the initial property value.

This plan enables you to move home and transfer the loan to a new property in most circumstances but there will be a requirement to repay some of the loan if you move to a property of a lower value. If you repay the loan early you may be charged an Early Repayment fee unless you are moving into residential care.

The main details of the Flexible Cash Release Plan are as follows:
- provides cash lump sum;
- minimum age: 60;
- minimum property value £60,000;
- the maximum amount you will be allowed to release from your property with a Flexible Cash Release Plan will depend on the age band you belong to and the value of your property. The minimum amount however, is £10,000 or 10% of the value of your property, whichever is higher.
- application fee of £500; valuation fee based on property value; available on properties in England, Scotland and Wales.

Norwich Union Flexible Cash Release Plan, tel: 0845 300 1622.

Flexible Income Release Plan: this is also a form of a roll-up loan. This scheme from Norwich Union aims to provide a guaranteed income for the rest of your life funded by a loan secured on your property. You also have the option of a cash lump sum as well as an income. The plan is designed to last for life, or until you need to go into long term care and should not be seen as short term. You have to agree to use at least 75% of the loan to purchase a Norwich Union Immediate Life Annuity (which is regulated by the Personal Investment Authority - see section 6) and you must not use your home as security for any other borrowing. The total loan is repaid with interest and any applicable fees at the end of the plan. You will have to pay the valuation fees and legal costs, as described by Norwich Union, and you should remember that you are responsible for looking after your property by maintaining it in good condition and keeping it fully insured. If you wish to make alterations to your property you must contact Norwich Union for approval. You should remember, though, that your circumstances may change and if you decide to repay the loan early there may be substantial early repayment fees.

The main details of the Flexible Income Release Plan are as follows:
- provides a guaranteed regular income for the rest of your life funded by a loan secured on your property;
- option of a cash lump sum (up to 25% of the money released) as well as an income;
- minimum age: 60;
- minimum property value: £60,000 and not more than £500,000;
- minimum of 75 years left on your lease, if your property is leasehold;
- the maximum amount you will be allowed to release from your property will depend on the age band you belong to and the value of your property (age bands are based on the age of the younger person of the couple);
- the interest rate is fixed for the term of the loan;
- your income tax situation may be affected;
- you are able to move house at any time and the plan can be transferred to your new home, but if you move to a lower value property you may have to repay some of the loan and interest;
- you must inform Norwich Union if the ownership of the property changes (for example if you marry or divorce) as you may have to repay some of the loan and interest;
- available for properties in England, Scotland or Wales.

Flexible Income Release Plan, tel: 0845 300 1622

The Home Improvement Trust

If you want to raise capital from your home specifically to pay for repairs, improvements or adaptations, the Home Improvement Trust may be able to help. The Home Improvement Trust is a not-for-profit company which exists to help older homeowners release some of the equity tied up in their home, in order to fund repairs, improvements or adaptations.

The Trust has special arrangements with commercial lenders who provide low cost loans to older people raised against the value of their homes. All the lenders associated with the Trust are regulated banks or building societies who provide a written guarantee of no repossession whilst ever the original borrower remains in occupation. These lenders have a particular empathy for the needs and concerns of older people and those with disabilities.

There are a range of options which may be available, including interest only, roll up loans and repayment loans. The loan may also be used to top up a grant where a client contribution is required by the local authority, such as in the case of a disabled facilities or renovation grant.

For the peace of mind of the borrower, the Trust arranges for the free services of an independent financial adviser who provides written advice on the options, which may be appropriate, based on the individual circumstances of the borrower. Before the borrower has to make a financial commitment and incur any expense the Trust provides a written analysis of all the costs. These include the building works and reduced legal and valuation fees.

The Home Improvement Trust works closely with local home improvement agencies and a local home improvement agency can also refer you to the Trust if appropriate. These agencies, sometimes called Care & Repair or Staying Put can give specialist advice to older homeowners on getting repair, improvement or adaptation work carried out. To find out whether there is one in your area, contact your local Age Concern, your local council, the Home Improvement Trust, or foundations - the National Co-ordinating body for Home Improvement Agencies.

The Trust works throughout England and Wales and will be extending the service to include Scotland during 2000.

The Home Improvement Trust, 7 Mansfield Road, Nottingham NG1 3FB, tel: 0115 934 9511. Fax: 0115 934 9501. Email: info@hitrust.org. Website: www.hitrust.org.

Foundations, Bleaklow House, Howard Town Mills, Glossop SK13 8HT, tel: 01457 891909. Fax: 01457 869361. Email: foundations@cel.co.uk. Website: www.cel.co.uk./foundations.

Shared appreciation mortgages

There have in the past been schemes called shared appreciation mortgages.

With the shared appreciation mortgage you take out a mortgage loan against your home. When you sell your home you then repay the loan and an agreed percentage of any increase in the value of your home. Such schemes can have pitfalls if you need to move home in the future as the amount you have to repay may mean that you do not have enough left to buy another similar house.

At the time of writing we are not aware of any shared appreciation mortgages of this type available.

10. Investment bond schemes

There was one other type of scheme for raising income from your home which was available in the past. This was the investment bond scheme. These schemes were home income plans which were linked to stock market investments.

In the past many people lost very substantial amounts of money through investment bond schemes. Insurance companies and independent financial advisers have now been advised by their regulatory bodies not to sell these schemes. If you know of any company trying to sell such a scheme please contact Age Concern England with the details. Do not sign anything if someone tries to sell you one.

11. Further information from Age Concern

Age Concern publishes a book which gives more detailed advice about home income plans, reversion schemes and roll-up loans. It includes information on interest rates, how state benefits are affected and how the schemes are taxed. The pros and cons of all the schemes are compared and the book gives practical advice on the arrangements involved:

Using your home as capital, by Cecil Hinton, price £4.99 (plus £1.95 p&p) from Age Concern Books, PO Box 232, Newton Abbot, Devon TQ12 4XQ, tel: 0870 44 22044, fax: 01626 364463 or online.

For any additional factsheets mentioned, for a full list of factsheets and/or a book catalogue, phone 0800 00 99 66 (a free call) or write to Age Concern FREEPOST (SWB 30375), ASHBURTON, Devon TQ13 7ZZ.

The following factsheets may be of use:

Factsheet 2	Retirement housing for sale
Factsheet 8	Moving into rented housing
Factsheet 13	Older home owners - financial help with repairs and adaptations
Factsheet 16	Income related benefits: income and capital
Factsheet 18	A brief guide to money benefits

If you have questions arising from this factsheet, or it does not cover the information you require, please contact our helpline team on 0800 808 6060 (a free call), Monday to Friday between 9.30am and 5pm, or please write to us at: ACIL, Astral House, 1268 London Road, LONDON SW16 4ER. For people with hearing loss who have access to a textphone, calls can be made by Typetalk.

Age Concern's series of over 40 factsheets is available as a subscription service to those whose work involves older people; for details of this service please call us on 0870 500 99 66 (national rate) and ask for our factsheet subscription leaflet.

Age Concern provides factsheets free to older people, their families and people who work with them. If you would like to make a donation to our work, you can send a cheque or postal order (made payable to Age Concern England) to the Personal Fundraising Department, ACE Freepost CN1794, London SW16 4BR or you can donate by credit cards on our freephone Information Line 0800 00 99 66 or on-line.

Information and Policy Division, Age Concern England, Astral House,1268 London Road, London SW16 4ER. Registered charity no. 261794.

Appendix C Reverse Mortgages in USA

The appendix is largely taken from 'Reverse Mortgages backing into the future' by Jean Reilly, University of Illinois, published by Elder Law Journal.

Although reverse mortgages have been nationally available since 1988 the take up rate is slow. Only 50,000 (estimate) have been effected to date. It is suggested that future growth will continue to be slow unless more consumer protection legislation is introduced, and unless explicit rulings are established which define how existing laws relate to reverse mortgages.

Beginning in 1991 there have been a string of law suits brought by planholders who accuse mortgage providers of defrauding them out of the equity in their house. Providers are charged with misrepresenting the interest rate, the build up of the loans and the terms and conditions of the loan. It was claimed that customers were deprived of the information to make an informed decision and so planholders were deceived on the material terms of the reverse mortgage.

These law suits have generated a large amount of unfavourable press reports which has scared off potential customers even from relatively safe government backed reverse mortgages - judgements were generally given for the plaintiff.

Financial institutions in USA are keen to expand their services to customers and new potential customers, but many have hesitated to enter the reverse mortgage market. They fear the investment risk that the rolled up value of the mortgage exceeds the house value. When the house prices in California fell by 5% per annum for a 6-year period, one mortgage provider had to write down the value of its reverse mortgage portfolio by 50%. Other financial institutions have not entered the market because they perceive they cannot make profits.

The institutions also fear the reputation risk if the lender has to foreclose on a loan due to default. There is also the reputation risk if the planholder's equity in the house is completely wiped out.

There is a tort risk to the reverse mortgage provider - if the planholder, or more likely the heirs, could claim that the planholder was deceived on the material terms of the mortgage. The disclosure requirements of the federal 'Truth in Lending' regulations now protect consumers and reduces the tort risk for the providers. The regulation requires, among other things, a complete disclosure of cost, charges and material facts and good faith projections - all charges must be included in the projections. When calculating the loan value projections the provider must use three hypothetical rates of house value appreciation - 0%, 4% and 8% p.a. The Federal Reserve estimates that 4% is the historic long term average of house appreciation. Projections are customarily prepared on three transaction periods - 2 years, the life expectation of the planholder, and a period of 140% of life expectancy calculated for both sexes on US Decennial Life Tables for Women.

Other USA institutions hesitate to enter the reverse annuity market due to the time delays in completion, the costly and complex advice, and reluctance of potential planholders to make a decision.

HECM is a government-backed organisation that promotes HECM approved mortgages and effectively extends indemnity insurance to lenders.

Eligibility for a reverse mortgage covered by HECM rules depends on age and home ownership, not income, credit history, or assets. To qualify a homeowner must be at least sixty-two years of age and reside either in a one-to-four family dwelling or an approved condominium. Condominium owners face a tough time qualifying because condominium buildings must meet strict structural requirements. The home must also be either lien-free or have an outstanding mortgage balance low enough to pay off with HECM proceeds. Under the HECM programme, a prospective borrower also must receive advance counselling from an approved counselling agency.

HECM borrowers can choose from different benefit payment plans. Under a tenure plan, the borrower receives monthly payments as he lives and remains in the home. In a term plan, the borrower receives monthly payments for a fixed period. The borrower also can choose a credit plan in which he or she can access a line of credit at times and in amounts of his own choosing. The borrower can choose a combination of plans.

On top of interest charges, HECM borrowers must pay a mortgage insurance fee of 2% of the loan amount, plus a half percent per year over the life of the loan. They must also pay an $1,800 origination fee, a one-time application fee of $100 - $300, a monthly fee of $25 -$30, and typical closing costs such as an appraisal fee, title report, and legal services.

A HECM reverse mortgage can offer fixed or adjustable rate mortgages. An adjustable rate seems to be the market's preferred structure. This is because there is no secondary market for fixed rate HECMs; the Federal National Mortgage Association (Fannie Mae) will only buy adjustable rate HECMs.

In 1996, Fannie Mae placed its imprimatur on reverse mortgages by launching its own reverse mortgage programme. The 'Home Keeper' mortgage. Under the programme a lender extends a Home Keeper mortgage to a borrower; the lender then sells the loan to Fannie Mae; Fannie Mae issues cheques to the loan's servicer that reflect the payment stream to the borrower; the servicer then issues its own series of cheques to the borrower. In an attempt to build volume, Fannie will hold the loans in its own portfolio, and Fannie's ultimate plan is to securitise loans for sale in the tertiary market in order to encourage lenders. To protect itself in the meantime, Fannie is currently working with an unnamed reinsurance company that will cover Fannie's losses when reverse mortgage payments to the borrower are greater then the property's value.

Fannie Mae's purchase of reverse mortgages from lenders is expected to expand greatly the cash available for such loans and to make them more widely accessible by bringing large banks nationwide into the business. They intend to buy as many reverse mortgages as possible. Initially, about 250 lenders nationwide have already expressed interest in offering Home Keepers. Eventually, many of the nation's 2,000 Fannie Mae-approved lenders can be expected to offer the Home Keeper.

Lenders will have to send their loan officers to classes that Fannie is sponsoring on the mechanics of making and servicing reverse mortgages. The number of reverse mortgages closed each year is expected to increase, not only because there will be an increased number of lenders, but also because there will be an increased variety of lenders. When the familiar bank in town, the savings and loan office down the street, and the credit union at work begin offering reverse mortgages, elderly homeowners will be more comfortable with the concept of reverse mortgages and more confident taking one out.

In the UK there is no equivalent government agency to Federal National Mutual Association (Fannie Mae). However, if the Treasury is not willing to agree to a Special Purpose Investment Vehicle to securitise investment in commercial and residential property and mortgages as outlined in Part C then Government should make some arrangement to securitise ERMs and improve their tradeability if the ERM market is to grow. An enlarged ERM market may benefit the Government because it could reduce State Spending by enabling people to use the equity tied up in their homes rather than rely on State benefits.

Report on Equity Release Mechanisms

The Actuarial Profession has supported this project as part of its ongoing research programme. The facts presented and the views expressed in the report are however those of the authors and not necessarily those of their employers and organisations, or those of the Profession. It is hoped that the report will be of value to policy makers and practitioners. The Profession is indebted to the members of the Steering Group and the many people who contributed to the project. A wide range of views were presented and not all the project members could agree on all of the reports, analyses or conclusions. Nevertheless the Report represents a consencus view of the whole team.

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