

# **Northern Ireland Housing Executive**

**RESEARCH INTO  
THE FUTURE HOUSING AND SUPPORT NEEDS OF  
OLDER PEOPLE**

**SCOPING STUDY:  
ASSESSMENT OF  
THE POTENTIAL OF EQUITY RELEASE FOR  
OLDER OWNER-OCCUPIERS**

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## **1 Introduction**

### **Background**

- 1.1 The Board of the NI Housing Executive approved a programme of research (in February 2005) into the future housing and support needs of older people. Overall this is to provide a comprehensive assessment of the current provision of housing for older people in Northern Ireland, determine the adequacy of this provision, identify what new accommodation models and services are required as well as examining the policy implications of these findings.
- 1.2 The research programme is being undertaken in three inter-related phases:  
Phase 1 – Mechanisms to enable older people to remain in their own homes  
Phase 2 – Supporting People  
Phase 3 – New Provision of Accommodation for older people
- 1.3 This report outlines the findings of a Scoping Exercise aimed at initially outlining the issues around equity release and assessing the potential for equity release for older owner-occupiers. This project falls within Phase 1 of the overall research programme.

### **Objectives**

- 1.4 The overarching aim of this project was to provide an assessment of the potential of equity release products in Northern Ireland – that is, to help older people who are owner-occupiers remain living independently in their own home, while at the same time enabling them to maintain and improve their property and/or quality of life.
- 1.5 The full objectives (as agreed by the NIHE Research team, Supporting People and the Older People Research Advisory group) were as follows:
  - To provide a working definition and understanding of the term equity release (including variations).
  - To undertake a mapping exercise which will identify what equity release products are available in Northern Ireland and compare them to those in Great Britain and Republic of Ireland.
  - To establish the level of interest and uptake there is in Northern Ireland for these schemes.
  - To explore the potential for organisation models (including a not-for-profit model) for signposting and/or delivering equity release products.
- 1.6 A number of perceived difficulties in undertaking this research were identified at the commissioning stage, as follows:
  - poor image and track record of some current products;
  - difficulties asking older people hypothetical questions; and
  - possible resistance from the financial sector to a not-for-profit organisation.

## **Methodology/Approach**

1.7 In order to address these issues, it was agreed that the appointed researcher, Fiona Boyle, would undertake a short initial mapping exercise to explore the nature and range of existing products and help refine the methodology and objectives of the research. This exercise was to cover the following:

- refinement of the initial working definition and understanding of the term equity release;
- a mapping exercise exploring the nature and range of current products;
- interviews with representatives of age sector charities, research, housing and health organisations; and
- an initial assessment of potential levels of interest among financial providers.

1.8 This report is the key output from this initial phase of the research and covers the following agreed aspects:

- initial description of equity release – definition and terms;
- overview of available products;
- literature search to identify key issues;
- individual views of key stakeholders, on what might make equity release work, including a not-for-profit organisational model.

All information is correct at date of publication, including information on the availability of lenders in Northern Ireland.

1.9 Section 8 of this report also outlines how a second phase of the research could be expanded, in terms of key research questions and methodology.

1.10 Overall, this scoping study provides a preliminary assessment of the provision of equity release in Northern Ireland – and the variety of arguments for and against going in this direction. This is perhaps helpfully summed up by the title of a BBC NI 'On your behalf' programme on the topic of equity release – *You may have cash in the attic, but should you really flog it?*

## 2 Equity Release – Definitions and terminology

### Background

2.1 This section provides an overview of the range of different definitions and broad terminology used to describe and explain the term 'equity release'. In addition, in order to provide real insight into the potential value (or cost) of equity release, a number of worked examples are provided.

*Equity release – a means by which older people can use the 'free' capital (the value not covered by a mortgage) in their homes to raise loans to pay for improvements, repairs, a new car or a holiday – has been around for almost 40 years.<sup>1</sup>*

### Definitions

2.2 **Equity** is the current value of a house, less any outstanding mortgage on it. It should be remembered that equity release is not simply about the products now defined in the market place as 'Equity Release'. Indeed, it can mean a broad spectrum of options, as noted below by Rowlingson and McKay (2005)<sup>2</sup>:

*People can access the equity in their homes through a number of methods, such as:*

- *Trading down through selling their current home and moving either to a smaller, less expensive home in the same area or a similar home in a less expensive area;*
- *Selling and moving into rented accommodation;*
- *Borrowing against the value of their home either through:*
  - *Extending an existing mortgage on a property*
  - *Taking out a 'lifetime' or 'roll-up' mortgage in which no payments are made until the person dies (this is an equity release scheme);*
  - *Selling a share (or all) of the home to an equity release company. This form of equity release scheme is referred to as a home reversion scheme;*
- *Selling a share of the home to a member of the family.*

Maxwell & Sodha (2006) noted: *For older home owners able to move from a high-value property or area to a property or area where prices are significantly lower, 'trading down' can offer a cheaper way of releasing funds.<sup>3</sup>*

However, for the purposes of this scoping study, the focus is on equity release products and the equity release market<sup>4</sup>.

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<sup>1</sup> *Older home owners and equity release: a review*, Appleton, JRF, 2003

<sup>2</sup> *Attitudes to inheritance in Britain*, Karen Rowlingson and Stephen McKay, 2005

<sup>3</sup> *Housing Wealth – First Timers to old timers*, Maxwell, D and Sodha, S, 2006

<sup>4</sup> Equity release can also be referred to as equity extraction – from Mullins and Murie, 2006 *Housing Policy in the UK*, Chapter 5 – *Home Ownership in Transition*

- 2.3 Terry and Gibson (2006) state that *in simple terms equity release is the release of cash at this point in time in return for giving up some or all of the value of one's home (the equity).*
- 2.4 The Financial Services Authority<sup>5</sup> describes equity release as a way of getting cash from the value of a person's home. They indicate that this can be done either by securing borrowing against the home or through selling part or all of the home – the latter giving a regular income, a lump sum or both.
- 2.5 SHIP states the following:  
*Equity release, in its broadest sense, means converting housing wealth into liquid assets. As such, this could include downsizing, moving out and renting, taking an interest only mortgage, taking out a sale and rent back scheme, and so on. The regulated equity release products which SHIP members provide are only a small part of this wider picture. However it is this part which the following paper explores and considers the possibility of how it may play a broader role.*<sup>6</sup>
- 2.6 In summary, equity release plans allow homeowners to borrow against a proportion of their property to access money tied up in their home.

*In simple terms 'equity release' means releasing capital or income from a property asset. In later life a person's home often represents the bulk of their savings and for many people this equates to owning a valuable asset but having a restricted income.*<sup>7</sup>

### **Purpose of Equity Release**

- 2.7 Within these definitions, commentators also frequently refer to the purpose of the equity being released – and talk about two types of product – firstly a home repairs and maintenance product and secondly a *lifestylers* product, aimed at providing additional income or capital to supplement, sustain or further develop an older person's lifestyle choices. This aspect has also been quoted in terms of releasing equity for children and grandchildren when they need it – e.g. at a life stage where they themselves are purchasing property or need funds for education – rather than waiting to release equity at a time of inheritance.

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<sup>5</sup> FSA website - [www.fsa.gov.uk](http://www.fsa.gov.uk)

<sup>6</sup> *Facing the Future - Redefining equity release to meet today's social and economic challenges*, SHIP, July 2009

<sup>7</sup> Executive Summary, *Aspiration Age - Delivering Capital solutions to promote greater choice and independence for older people*, One Housing Group, 2008

- 2.8 A recent report<sup>8</sup> published by Joseph Rowntree Foundation (JRF) January 2010 noted the following:

*Around a million older home-owners have at least £100,000 of housing equity, yet their incomes are so small that they qualify for means-tested benefits<sup>1</sup>. If these people could draw on their housing equity easily and safely they could afford practical help which would improve their quality of life and make it possible for them to continue to live in their own home.*

- 2.9 There is also an emerging third reason for equity release products – paying for one’s care in later life. However, *releasing equity to pay for care and support represents just 1% of current commercial use.*<sup>9</sup>

The cost of care in later life is increasing (in actual terms) and in terms of the numbers requiring care (and a higher level of care). *The transformation of Britain into a property-owning society, partly fuelled by the introduction of the Right-to-Buy policies in the 1980s, has inevitably led to controversy over whether the home should be used to pay for long-term care needs.*<sup>10</sup>

- 2.10 Overall therefore, Rowlingson and McKay (2005) summarise the reasons or purposes of releasing equity as follows:

*People can access housing equity in order to pay for general living costs or for capital expenditures such as cars, or for holidays and so on. Housing equity can also be released in order to pay for care. There is a strong view that taxes should pay for residential care (Parker and Clarke, 1997) and people generally appear to resent the view that home-ownership can be treated as planning for the costs of care. Finch and Mason (2000) also argue that older people feel they have an inalienable right to their property. But views may be different about using up assets to pay for care in one’s own home (domiciliary care).*

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<sup>8</sup> *Can equity release help older home-owners improve their quality of life*, JRF, Terry, R and Gibson, R , January 2010

<sup>9</sup> Op cit, page 5

<sup>10</sup> Foreword, *Rainy days and silver linings: using equity to support the delivery of housing or services for older and disabled people*, DH Learning and Improvement Network, 2009

2.11 Commercial equity release providers frequently assess the reasons why potential and actual equity release customers want to obtain equity from their property, as illustrated in the following tables:

<b>Source:</b> Hodge Equity Release (Mar – May 2007) – survey of people who have released equity from their properties – motivation for this:	
Home Improvements	33%
Better Lifestyle	20%
Funds for a rainy day	12%
Holidays	11%
Buying new car	10%
Helping the family	6%
Inheritance tax planning	3%
Other	5%
<b>Source:</b> Key Retirement Solutions Customer Satisfaction Survey, 2006 – Most popular use of equity release	
Home/garden improvements	70%
Holidays	40%
Outstanding debts	31%
Treat family or friends	16%
Reduce inheritance tax liability	14%
Invest for income	14%
Special celebration	9%
Fund future care needs	1%

**Broader terminology**

2.12 Having provided a range of overall definitions for the term equity release, further examination of the market indicates that there is a wider terminology in use to explain the range and different types of products available. It is clear that there are two distinct types or forms of equity release (in some texts/descriptions this increases to three broad types).

2.13 Again, whilst the overall thrust and definitions are broadly similar, they are described in different ways by different providers, and also by organisations outside of the commercial market. A number of descriptions are provided in the boxes overleaf.



**Source:** *Obstacles to equity release*, Rachel Terry and Richard Gibson, 2006

### **Types of equity release**

There are two distinct types or forms of equity release. These are as follows:

#### **Lifetime Mortgages**

This is a loan which provides cash now<sup>11</sup>, secured by mortgaging the home<sup>12</sup> based on the value of the property, with no payments of interest or principal until the property is sold when the home owner(s) have either died or moved permanently into residential care. At that point the provider of the loan (ER provider) must be repaid the principal together with the interest that has been rolled up during the period of the loan. The way this works is that a mortgage is taken out against the client's property and used to purchase a life-long annuity.

#### **Home Reversion**

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

In this case houses are sold at discount to investors – either wholly or partially – but the resident retains occupancy rights for life. In either case, the homeowner can choose whether to release all, or only part, of the equity in their home. Whichever they choose, they remain responsible for keeping the property adequately maintained.

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<sup>11</sup> The cash provided through equity release can be on a monthly basis (usual approach) or as lump sum – older person/people continue to live in their home. Indications suggest that people in their 60s and 70s usually benefit most from monthly cash payments, given their potential life expectancy of a further 20 – 30 years.

<sup>12</sup> Based on the value of the property.

**Source: Which?** summarises the types of schemes as follows:

### **Lifetime Mortgages**

A loan, secured against the value of a property. This provides a tax-free cash lump sum or an income. Interest is added at a fixed or variable rate each month until the loan is repaid – usually when the home is finally sold.

### **Home Reversions**

The individual sells all, or part, of their home to a reversion company and gets a tax-free lump sum in return and a guarantee that they can remain in the property for as long as they choose. When the plan ends, the company takes its percentage share of the proceeds. But, typically, the older person does not get the full market value of their share, as the firm gives you the absolute right to remain in your home, rent-free (sometimes a peppercorn rent of £1 per month may be charged).

### **Drawdown Options**

These offer more flexibility within Home Reversion. Instead of taking a lump sum, the older person takes instalments as and when they need them. This saves on interest charges as they only pay interest on amounts released.

**Source:** Chapter 2, *Rainy days and silver linings: using equity to support the delivery of housing or services for older and disabled people*, DH Learning and Improvement Network, 2009

### What is equity release?

Equity release means unlocking some of the market value of the property you live in without moving house. There are two distinct types of equity release product<sup>13</sup>:

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

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

- 2.14 In essence, therefore, lifetime mortgages<sup>14</sup> allow the homeowner to borrow cash against their home, with interest payments rolling up until the total amount is repaid from the proceeds of the house sale. In home reversion the homeowner sells a share of their property to the equity release company, which takes the same share of the final proceeds.

### Conditions and Exclusions

- 2.15 Another important aspect of equity release terminology is around **exclusions** and **conditions**. These tend to differ between different providers and/or for different products, but some of the main exclusions are as follows.

<sup>13</sup> The author indicates that this is a simple starting point – and that in practice there are many variants and permutations.

<sup>14</sup> It should be noted that there is another form of Lifetime Mortgage where the interest is paid monthly, on an ongoing basis – in Northern Ireland this is currently available via Halifax and Scottish Widows. This option is clearly dependent on the individual's ability to afford and repay the interest, and may be of greatest interest to those in receipt of income from a reasonable occupational pension, who are in the position of having no or limited savings and wish to access the capital in their home.

**Age** Equity release deals for older people are available generally for those aged over 60. Some providers operate a slightly lower age threshold (e.g. 55) whilst others look at a higher age group (65 plus). Broadly equity release providers are aiming to a market of those aged 55 – 70.

**Property** To be eligible for equity release you need to own your property with no current mortgage attached to it (own outright)<sup>15</sup> – and the property must be worth a minimum amount as stipulated by the lender.<sup>16</sup>

**Title** Some providers suggest that this should ideally be a freehold, rather than leasehold, whilst others indicate no real issues with leasehold, as long as a long lease is in place.

**Option of moving** Whilst this was a more significant issue in the 1980s it continues to be an issue. It is therefore important to check any small print to ensure that the policy signed up to will allow the older person to sell and move on – for example, into sheltered housing.

**Living arrangements** With increasing levels of divorce/separation an older person can often be living with a younger partner, relative or friend, who does not have any inherent or legal right to the property. Depending on the terms of the scheme, a younger person would need to find alternative housing in the event of the death of the older person (and sale of the property by the equity release provider).

**No negative equity** Given the rise and then subsequent decline in the housing market, most equity release plans now feature or offer a 'no negative equity' guarantee, meaning that no matter what happens to house prices, the debt will never exceed the value of the house.

2.16 The situation with regard to conditions and exemptions is summarised as follows in *Rainy days and silver linings*<sup>17</sup>. Commercial equity release schemes normally have the following in common:

- A minimum age restriction – usually 60 or above but can be as low as 55.
- The applicant is able to live in the property for as long as they want
- A tax-free cash lump sum, an income for life or a combination of both is received.

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<sup>15</sup> In a small number of cases the owner may have a small mortgage attached – in other words, some schemes will allow you to borrow enough to clear a small outstanding mortgage.

<sup>16</sup> In the Northern Ireland context (see Section 4 for lenders providing equity release products in NI) the four different lenders stipulate different minimum amounts, as follows – Aviva £75,000, Just Retirement £70,000, Halifax £40,000 and Scottish Widows £150,000.

<sup>17</sup> *Rainy days and silver linings: using equity to support the delivery of housing or services for older and disabled people*, DH Learning and Improvement Network, 2009

- There are no repayments required until the property is sold. Usually this is when the homeowner dies or permanently moves into a care home.
- As long as the lending company is a member of SHIP, the applicant is able to move to another suitable property without financial penalties.
- Again, as long as the lending company is a member of SHIP, there is a 'no negative equity' guarantee. This means the estate of the homeowner will not be liable for any debt beyond the property value, regardless of fluctuation of house prices.

### **SHIP (Safe Home Income Plans)<sup>18</sup>**

2.17 It is important in any discussion of equity release terminology to include reference to SHIP - Safe Home Income Plans. SHIP was launched in 1991 to facilitate self-regulation of companies wishing to offer home income and equity release plans and to help boost confidence, following a number of disastrous experiences in the 1980s. Members can display the SHIP logo on their company literature as a guarantee to their customers. All participating companies are pledged to observe the SHIP Code of Practice as follows, and all plans sold by SHIP members come with the following safeguards:

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

The membership of SHIP covers more than 90% of the commercial equity release market.

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<sup>18</sup> [www.ship-ltd.org](http://www.ship-ltd.org) – Membership is voluntary.

## Financial Services Authority<sup>19</sup>

2.18 The Financial Services Authority<sup>20</sup> took over regulation of the mortgage market in October 2004 and then from April 2007 they have also covered equity release products. The fact that the FSA provides formal regulation is important for consumers – providing two significant safety nets:

- If a consumer has a complaint against a company which sold them an ER scheme, that is not resolved to their satisfaction, they can ultimately take their dispute to the independent and free Financial Ombudsman Service.
- If the firm in question has gone out of business, the Financial Services Compensation Scheme may be able to help.

## Worked examples

2.19 It is often difficult to visualise how equity release operates in the abstract. For this reason a number of work examples are outlined below.

Source: Saga website – [www.saga.co.uk](http://www.saga.co.uk)

### Lifetime Mortgage – Lump sum

**How much can I borrow?** Most providers have a minimum amount they will lend – £30,000 is standard. Beyond that the amount is worked out as a proportion of the property's value – with a typical loan worth between 18% and 50%.

**What will it cost me?** In addition to the interest payments which will be added to the outstanding debt, there are also a number of charges to factor in. Some of these can be added to the loan, but at least a couple will have to be paid up front. These include a non-refundable valuation fee of about £300 when you apply for the loan, around £500 for legal fees, around £500 for your specialist independent financial adviser or broker for arranging the deal, a provider's arrangement fee, typically around £600, which is payable at the start of the mortgage, but which is usually added to the loan and also a small charge of around £30 to cover the cost of transferring the money, known as a "telegraphic transfer fee."

<sup>19</sup> [www.fsa.gov.uk](http://www.fsa.gov.uk)

<sup>20</sup> In June 2010 George Osborne, Chancellor of the Exchequer, announced plans to abolish the FSA by 2012, and for its regulatory role in terms of financial services provision to consumers to be taken over by a new Consumer Protection and Markets Authority.

**Worked example<sup>21</sup>**

David is 65. He lives with his wife Sue. Their house is worth £200,000 and they want to release £30,000. They take out a lifetime mortgage with an interest rate of 5.99%.

Their upfront costs total £1,445, being a valuation fee of £345, solicitors' fees of £600 and brokers' fees of £500. In addition, their lender charges them an arrangement fee of £599 and a telegraphic transfer fee of £35, both of which are added to the loan balance, which therefore starts at £30,634.

They make no further payments but each year interest is added to that total as below:

**Year 1**

Balance at start = £30,634.00  
 Interest - at 5.99% = £1,882.51  
 You owe at end of year = £32,516.51

**Year 5**

Balance at start = £38,904.87  
 Interest - at 5.99% = £2,390.55  
 You owe at end of year = £41,295.42

**Year 10**

Balance at start = £52,444.48  
 Interest - at 5.99% = £3,235.73  
 You owe at end of year = £55,680.21

**Year 15**

Balance at start = £70,712.92  
 Interest - at 5.99% = £4,353.94  
 You owe at end of year = £75,066.86  
 (Source: Hinton and Wild)

So by the end of year 15, the £30,000 David and Sue borrowed will have grown to £75,066.68.

**SAGA's comment on worked example**

The effect of compound interest means the outstanding debt can grow very quickly, making this an expensive way to borrow, especially if you do not need the whole amount from the outset.

**Lifetime Mortgage – Drawdown**

A Drawdown option offers what is potentially a much less costly way to borrow money through the lifetime mortgage route. The principle is the same, but the way you access the money is different and therefore much cheaper. With this type of equity release product the mortgage company agrees to lend you an amount of money. But instead of taking it all at the outset, the idea is to draw down smaller amounts as and when they are needed. That can make a huge difference to the speed at which the debt grows.

<sup>21</sup> Source: Hinton and Wild

**Worked example<sup>22</sup>**

Once again David and Sue arrange to borrow £30,000 but they do not need access to the money all at once. So in year 1 they take £3,000 to repair their roof. In year 2 they take £2,000 to visit their new grandchild in Australia. In year 3, they take £3,500 to buy a replacement car for Sue. In years 4 and 5, they draw nothing. This would mean at the end of year 5, they have only actually borrowed £8,500 out of the potential £30,000.

The charges remain the same, so they would still have to pay £1,445 in upfront fees and £634 would again be added to the initial £3,000. But because the amount of money they have actually used is smaller, the interest has grown much more slowly:

**Year 1**

Balance at start of year = £3,634.00  
 Amount borrowed in year = £0  
 Interest - charged at 5.99% per year = £217.68  
 What you owe at end of year = £3,851.68

**Year 2**

Balance at start of year = £3,851.68  
 Amount borrowed in year = £2,000  
 Interest - charged at 5.99% per year = £350.52  
 What you owe at end of year = £6,202.19

**Year 3**

Balance at start of year = £6,202.19  
 Amount borrowed in year = £3,500  
 Interest - charged at 5.99% per year = £581.16  
 What you owe at end of year = £10,283.35

**Year 4**

Balance at start of year = £10,283.35  
 Amount borrowed in year = £0  
 Interest - charged at 5.99% per year = £615.97  
 What you owe at end of year = £10,899.33

**Year 5**

Balance at start of year = £10,899.33  
 Amount borrowed in year = £0  
 Interest - charged at 5.99% per year = £652.87  
 What you owe at end of year = £11,552.20

Under this arrangement by the end of year 5, David and Sue have borrowed £8,500 and owe £11,552.20. Compare that to the earlier example where David and Sue released £30,000 at the start. In those circumstances by the end of year 5 they would owe £41,295.42.

**SAGA's comment on worked example**

Advocates say they allow customers the best of both worlds - access to a large sum but in such a way as to limit the amount of interest incurred.

<sup>22</sup> Source: Hinton and Wild



### Home Reversion Schemes

A home reversion scheme enables the homeowner to sell a fixed percentage of their house to the reversion company. The scheme pays the homeowner a cash sum or, in a smaller number of cases, a regular income, in return for the portion they have sold. The homeowner also has the right to continue living in their home for the rest of their life, or until they decide to sell. The homeowner remains responsible for maintaining the property as long as they live in it.

Unlike the lifetime mortgage products - where you can calculate at the outset what the debt would become - with a reversion the amount owed will depend on the value of the property at the time of the sale. This is an important point in that, if an individual sells half their house to a reversion provider, it will be entitled to a 50% share of the proceeds of the sale, even if the house has greatly increased in value in the meantime.

**How much can I borrow?** This will depend largely on the homeowner's age, gender (differentials in life-expectancy) and the value of the property. It should be noted that because the company will have to wait to get its money back - and it cannot know how long the homeowner will live - it will pay less than the market rate of the property at the outset.

**What will it cost?** There are a number of charges - a non-refundable upfront valuation fee of about £300 on application for the scheme, around £500 for legal fees and the same for brokers (these charges may be higher because it is a home reversion and more work is involved than with lifetime mortgages). Reversion providers do not levy separate arrangement fees - their costs are taken into account when calculating the amount that can be released.

#### Worked example

John is 70. His property is worth £200,000. He wants to release around £30,000. The reversion company will not buy less than 30% of his property or more than 90%. It offers him the following amounts:

Percentage Sold = 90%  
Cash Released = £89,975

Percentage Sold = 70%  
Cash Released = £69,980

Percentage Sold = 50%  
Cash Released = £49,986

Percentage Sold = 30%  
Cash Released = £29,992

In the end he decides to release 31% of his property value which gives him £30,991. His costs total £1,590, made up of a valuation fee of £240, legal fees of £650 and a brokers' fee of £700.

John lives for another 15 years. By the time his house is sold after his death the value has increased to £350,000. The reversion company is entitled to 31% of the new valuation or £108,500. John's family receives the remaining 69% which is worth £241,500.

### 3 Equity Release – Review of positives and negatives

- 3.1 For the purposes of this Scoping Exercise a preliminary literature review has been undertaken – with the aim of identifying the key issues in the debate about equity release. These are recorded issue by issue – and have been divided broadly into positive and negative themes. Firstly comment is made on the housing market and the interconnections between property value and the potential for older people to release equity.

#### Changing housing and care markets

- 3.2 Equity release schemes have proved very popular in recent years, particularly given the rises in property prices in the mid-2000s, with people seeing the value of their home double and in some cases triple in value. As a result, an increasing number of people who have reached or are approaching retirement age find themselves with a wealth of equity that far outweighs their savings and disposable income.
- 3.3 Combined with the growth of equity release schemes has been increasing Government policy to assist and encourage older people to stay put – that is, to remain in their own home comfortably – through maintaining and adapting existing housing and to pay/contribute towards their personal and nursing care as health needs. Croucher (2008) found that:

*Most people, whether or not they themselves intended to draw on the equity in their homes, were supportive of the principle of equity release especially if people did not have pensions, or family who would inherit. Some participants saw their housing equity as an essential source of income in later life.<sup>23</sup>*

#### Equity Release – Positive factors

- 3.4 Many of the positives of equity release can be summed up around an older person's need (and desire) to release capital from their house. In addition, the fact that equity released is tax free and could enable the older person to continue to stay in their own home (no need to move) as a result of releasing income (when they are currently on a low fixed income and/or with no savings).
- 3.5 In making any decision about their long-term housing needs, older people undoubtedly take into consideration factors beyond the cost of maintenance and repairs. Such factors include:
- Attachment to/sentimentality of house
  - area – and availability/provision of necessary services
  - other housing costs – e.g. heating
  - high property taxes
  - level of support/proximity to family/friends
  - family considerations.

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<sup>23</sup> *Housing Choices and Aspirations of Older People*, Research from the New Horizons programme, Karen Croucher, Centre for Housing Policy, University of York Feb 2008

Rolfe et al (1993) note that moving on may be difficult, because of the relatively high costs of housing aimed at the retirement sector, whether sheltered or mainstream.<sup>24</sup>

Many of the positives of staying put and potentially releasing equity focus on the older person's desire to stay where they are comfortable and have a good support and family network.

- 3.6 An early study of equity release clients<sup>25</sup> found that the additional income released made an important contribution to people's living standards, but that it was unlikely to be used for major expenditure on housing disrepair or care services. This study (whilst over 10 years ago) suggested that people were releasing quite small amounts of money. The average sum released in this study equated to £35 per week.

*Before embarking on equity release clients had found life financially quite difficult. The outstanding reason for going into a scheme was to acquire more income. On average, they had increased their income by 20%.*

- 3.7 Factors in favour of equity release can be summed up as follows using a list of Pros from Which?:

- You receive a tax-free lump sum or income;
- there are, typically, no monthly repayments;
- you can spend the money on what you want;
- you can stay in your home for the rest of your life or until you choose to move;
- with some plans you can guarantee some inheritance for your dependants;
- plans come with a "no negative equity" guarantee, so you can never owe more than the value of your home.

- 3.8 Terry and Gibson (2006) highlight the changes in the equity release market – and its regulation – over the last number of years and conclude that *these changes have gone a long way to counter the past criticisms of the drawbacks of equity release deals*. They particularly highlight the availability of draw-down options, the fall in the minimum size of deal required and the fact that the market now has strong consumer protection via the FSA and SHIP.

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<sup>24</sup> Rolfe et al 1993

<sup>25</sup> *Equity Release for older home-owners*, JRF, Housing Research 188, 1996, Dr Judith Davey

## Equity release – negative factors

- 3.9 Equity release as a term has often courted negativity – mainly because of what became controversial home income plans sold in the late 1980s which proved disastrous for many people. At this point in the late 1980s and early 1990s a combination of high interest rates and the property crash left many investors owing more than the value of their house – with all the associated issues of negative equity. Whilst these potential negatives are largely now overcome, particularly with the regulation of the industry by the FSA, the voluntary membership of SHIP and the improvement in the availability and competitiveness of equity release products which have improved considerably during the last ten years (Baxter and Bennett, 2006), a number of perceived (and actual) negative factors in relation to equity release have been noted.
- 3.10 Much of this relates to a lack of understanding from the public in terms of the consequences of equity release – for example, on benefits, tax and inheritance. This lack of understanding is perhaps best summed up in the Foreword<sup>26</sup> to the recent SHIP report (July 2009):

*However, equity release has a problem. This Report makes clear that most people have heard of it, but that they don't understand it, that they distrust it, and that they are therefore reluctant to access it. They believe that they could end up in negative equity. That they could lose their home. That it is poor value and something of a rip-off. That it is high risk and unregulated. They think it includes dubious sale and rent back products. None of this is true, but it is widely believed. So the biggest obstacle to equity release is reputational.*

- 3.11 One cited negative factor is the cost of equity release – both in terms of take-up and accessing schemes and the ongoing cost in relation to overall value of equity. In particular, the cost of compounded interest over a long period in some products is highlighted. Saga notes *Equity Release may seem like an ideal solution for your circumstances, but it is not painless. It can be an expensive way to borrow, and...any money you raise involves either selling or mortgaging part of your home.*<sup>27</sup>

Rolfe et al (1993) note *In many cases, much of the anticipated release of equity is absorbed by transaction and other costs.*<sup>28</sup>

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<sup>26</sup> Baroness Patricia Hollis of Heigham

<sup>27</sup> Saga website – [www.saga.co.uk](http://www.saga.co.uk)

<sup>28</sup> Conclusions from Rolfe et al 1993 – page 98

- 3.12 The Equity Release Solicitors' Alliance (ERSA)<sup>29</sup> outlines why they think interest rates in equity release are high.

*Many people expect the interest rates in equity release plans to follow the same trend as normal residential mortgages. However, this is not the case because of the long-term nature of the mortgage.*

*Equity release plans are only repayable on the death of the homeowner or at point where they permanently vacate the property. Clearly, the lender has no way of knowing when this will be and therefore has to be able to fund products on a long-term basis.*

*Accordingly, it is not possible to follow the Bank of England base rate, as many other mortgages do. That said, rates could come down as more lenders enter the market and competition for business increases.<sup>30</sup>*

- 3.13 A second negative is the effect that equity release could have on eligibility for state benefits. In short, a homeowner who takes equity from their property either as income or as a lump sum can have their entitlement to state benefits affected – these being benefits<sup>31</sup> that are means tested on savings and income including:

- Income Support
- Pension Credit
- Funeral payment
- Disabled Person's Tax Credit
- Invalid Care Allowance.

*Any consideration of the potential for equity release to supplement low incomes among older homeowners cannot ignore the effect it could have on their entitlements to means-tested benefits.<sup>32</sup>*

Terry and Gibson (2006) summarise this drawback by noting that individuals may suffer a substantial reduction in their entitlement to benefits if they draw on their housing equity, and *this may leave them little, if any, better off after giving up equity in their home.*<sup>33</sup>

<sup>29</sup> The Equity Release Solicitors Alliance (ERSA), a group of established law firms specialising in equity release, was established to promote the importance of specialist legal advice when considering equity release products. It has committed to a charter guaranteeing it will provide the best legal advice to consumers undertaking such transactions.

<sup>30</sup> ERSA answers the top 10 legal questions relating to equity release.

<http://www.moneywise.co.uk/property-ladder/profit-property/article/2009/05/15/equity-release-top-10-legal-questions>

<sup>31</sup> Attendance Allowance, Disability Living Allowance, Severe Disablement Allowance, Incapacity Benefit and Carer's Allowance are not affected by income from equity release

<sup>32</sup> Page 34, *Home Ownership in later life – Financial benefit or burden?* Hancock, Askham, Nelson, Tinker, JRF 1999

<sup>33</sup> Page 20, *Obstacles to equity release*, Rachel Terry and Richard Gibson, 2006

- 3.14 Thirdly, it is also acknowledged that the release of equity from a property may have a negative effect on the homeowner's tax position, including in relation to Income Tax and Inheritance Tax. In the former case, if the equity release product is used to provide an income then that income will be liable to tax if it brings their income above their personal allowance.
- 3.15 Fourthly, another well-documented potential negative of equity release relates to the topic of inheritance. Hancock et al<sup>34</sup> state:

*Even when there are larger potential gains, not everyone would choose to increase their incomes through equity release. Equity release implies a reduction in future wealth to be bequeathed to one's heirs or to draw on oneself at some future date. Once equity has been released, it no longer earns a return through house price rises.*

- 3.16 The use of a property for home equity release will inevitably mean a full or partial reduction in the estate being left to the homeowner's family and/or other potential beneficiaries of a will/estate. One could argue that less emphasis is being put on inheritance. However, as increasing numbers of younger people are unable to purchase a first property well into their 30s and as the costs of education for grandchildren increase, many families (whilst wanting their older person to be comfortable) would also be keen, interested and dependent to some degree on having some sort of inheritance passed on.

According to Rowlingson and McKay (2005):

*More than half of the population think that they are not at all or not very likely to receive property as an inheritance in the future. But 14% think that they would definitely receive property and another 14% think they are very likely to receive it. Younger people, especially those whose parents are currently owner-occupiers, have the greatest expectations of receiving an inheritance.*<sup>35</sup>

- 3.17 Some commentators, however, argue that bequeathing wealth and releasing equity are not necessarily incompatible. According to Davey *home income plans usually involved only £30,000 thus, in some cases, still leaving a considerable sum for others.*<sup>36</sup>

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<sup>34</sup> Page 49 *Home Ownership in later life - Financial benefit or burden?* Hancock, Askham, Nelson, Tinker, JRF 1999

<sup>35</sup> *Attitudes to inheritance in Britain*, Karen Rowlingson and Stephen McKay. 2005

<sup>36</sup> *Ibid*

- 3.18 A final area which some have suggested may be a negative of equity release relates to the quality and level of advice provided to consumers. Whilst it is recognised that the days of the 1980s of untrained salesmen are long gone, some research indicates continuing concerns about how and what is being sold to consumers of equity release plans and products. A recent undercover **Which?** report<sup>37</sup> stated the following:

*A good financial adviser should talk you through the alternatives to equity release, discuss different schemes and their associated risks and guide you through the process of deciding whether equity release is right for you.*

*Disappointingly, our research found that good equity release advice is hard to come by. In our undercover investigation, we found that only a third (13) of the advisers we visited gave advice that passed our test<sup>38</sup>. The remaining 27 all failed on one or more aspects of the advice process.*

These failures included the following:

- 23 out of 40 advisers did not carry out a thorough fact-find;
- 19 advisers did not mention or dismissed one of the two types of equity release plan;
- six out of 40 advisers did not mention how quickly the debt could grow.

- 3.19 Older people's fears are often based on inter-connected stories – or their perception of what is on offer from equity release – including their understanding of, for example, sale-and-rent-back schemes. The emergence of such schemes – it is thought – has damaged older people's viewpoint on equity release, as there is a certain level of confusion over what each type of scheme offers.

Sale-and-rent-back schemes operate on the basis of a property firm purchasing a property, in order for the homeowner to release the capital held within its value, thus enabling them to have a better lifestyle or simply make ends meet

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<sup>37</sup> *Equity Release – Which? uncovers inadequate advice*, August 2009

<sup>38</sup> The test – based on advice on one of two scenarios – including giving all the information/paperwork about their service and fees as required by FSA, conducting a full investigation of the researcher's circumstances, talking through the different schemes/options and alternatives to equity release, discussing the risks of equity release and making suitable recommendations.

The drawbacks of these schemes have been well highlighted in the media<sup>39</sup> and can be summarised as follows:

- Sale-and-rent-back companies purchase people's homes for less than the market value – typically 70% – 80% (offering a quick and hassle-free sale);
- Such schemes are not regulated by the FSA;
- Those providing such schemes often, but not exclusively, target vulnerable older people – in particular communities;
- Scheme providers can be very persuasive – pressurising people into making a decision. Incentives to make a decision include marketing around – they will pay all fees and costs (legal and otherwise of sale) and offering a market rent lower than current rental value;
- The quality of service from sale-and-rent-back firms can differ widely, with some more established operators seeking to protect their reputations, but others simply out to make 'a quick buck' with little concern for the well-being of the scheme recipient;
- Such schemes invariably have conditions (clear and implied) which can be detrimental to the consumer – for example, reported drawbacks have included steep rent increases, the property holder deciding (without any comeback or rights for the resident) that they wish to sell the house – often after a short period of time, no or limited assistance with repairs/maintenance (even when this has been promised). Since the schemes/services are unregulated most offer no security in terms of long-term tenancy or rental levels.

3.20 As before, the 'cons' of equity release can be summarised using information from Which? as follows:

- the value of your estate is reduced;
- your entitlement to benefits may be affected;
- it will reduce your choices later in life if your circumstances change; and
- rates, now an average 6.5%, can be high, compared to traditional mortgage products.

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<sup>39</sup> [http://www.thisismoney.co.uk/mortgages-and-homes/tips-and-guides/article.html?in\\_article\\_id=422683&in\\_page\\_id=53957&in\\_advicepage\\_id=116](http://www.thisismoney.co.uk/mortgages-and-homes/tips-and-guides/article.html?in_article_id=422683&in_page_id=53957&in_advicepage_id=116)



## 4 Equity Release – Overview of product availability in Northern Ireland

### Background

- 4.1 Mechanisms whereby older people can realise capital tied up in their homes have been available in the United Kingdom since the early 1970s.
- 4.2 Whilst there is a fast developing market of equity release products UK-wide, not all of these are available in Northern Ireland<sup>40</sup>. Equity release is a rapidly changing market – every attempt has been made to ensure accuracy of information in this report. At the time of publication of this report (November 2010) only four providers lend in Northern Ireland.
- 4.3 **Equity Release Services Northern Ireland**<sup>41</sup> were helpful in providing independent market-based information for this Section in terms of what products are currently available in Northern Ireland.

### Equity Release products – available in Northern Ireland

- 4.4 The following lenders currently provide equity release products<sup>42</sup> in Northern Ireland:

Lender	Type of product
AVIVA Equity Release UK Ltd	Lifetime mortgages
Just Retirement Ltd.	Lifetime Mortgages
Halifax	Lifetime Mortgage – paying interest
Scottish Widows	Lifetime Mortgages

All of the above are authorised and regulated by the Financial Services Authority<sup>43</sup>, and the first two are listed as SHIP members. Appendix 1 provides further details on each of these lenders, including their contact details and information provided by them on the type and nature of the equity release products they provide (from their websites and promotional material).

### Other factors affecting product availability

- 4.5 Other factors and criteria vary across the different providers. In terms of lenders who provide in Northern Ireland, the individual can both apply direct to some lenders and via an authorised/regulated

<sup>40</sup> The following lenders do not provide equity release products to the Northern Ireland market – Bridgewater Equity Release, Hodge Lifetime, Home & Capital, LV=, More 2 Life, National Counties Building, New Life Mortgage Limited, Partnership, Prudential Lifetime Mortgages, Retirement Plus Ltd, Stonehaven.

<sup>41</sup> Independent Equity Release specialists operating throughout Northern Ireland – office in in Hollywood.

<sup>42</sup> No lenders in Northern Ireland currently provide Home Reversion products.

<sup>43</sup> FSA regulates the Equity Release market – both lifetime mortgages and from April 2007 home reversion products..

Independent Financial Adviser, e.g. AVIVA and Scottish Widows. Others, however, accept applications only from intermediaries who are authorised and regulated by the Financial Services Authority, e.g. Halifax and Just Retirement. In other words, their products are sold exclusively through IFAs.

- 4.6 Intermediaries or IFAs include those who specialise exclusively in equity release such as Age Partnership (Equity Release Specialist), Key Retirement Solutions, Hinton & Wild Home Plans etc. and a wide range of financial and mortgage advisors<sup>44</sup> who provide an advice and take-up service for equity release within their portfolio of services. Intermediaries offer a range of services – with some providing a telephone-based equity release advisory service and others meeting face-to-face with the interested party.
- 4.7 A number of lenders – who, in the past, would have provided equity release in Northern Ireland – have recently pulled out of this market UK-wide – e.g. Coventry Building Society, Northern Rock, Saffron Building Society.
- 4.8 In addition, some of the lenders listed above have only recently extended their service and products to cover customers in Northern Ireland. For example, Norwich Union (now AVIVA) launched equity release products in Northern Ireland in January 2008.
- 4.9 Equity release advice has also been provided by voluntary organisations/charities involved in wider work with older people. For example, the Help the Aged Equity Release Service<sup>45</sup> and Age Concern England which has traditionally sold a range of financial and insurance products to older people. Help the Aged/Age Concern (which merged earlier in 2009 and has been renamed Age NI), at the time of writing the report was considering the development and delivery of an equity release product for the Northern Ireland market. Further reference to this is made in Section 7 – Views of Key Stakeholders.

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<sup>44</sup> Whilst many mortgage brokers may advise on home reversion schemes and roll-up mortgages only firms registered as IFAs can discuss income options involving annuities.

<sup>45</sup> The Help the Aged Equity Release Service was provided through Independent Financial Advisers, NHFA Ltd who are authorised and regulated by the FSA. NHFA Ltd is a member of the HSBC Group.

## Section 5 Equity Release – non-commercial options

### Background

5.1 This section reviews developments in equity release (and equity release-type schemes) outside of the commercial UK market. In addition, it suggests that further work could be done to review firstly specific regional Government policies and developments regarding equity release, e.g. Wales, and secondly market development worldwide, for example in USA, Australia and New Zealand.

### Non-commercial equity release

5.2 Studies have pointed towards the need for – and potential of looking at – non-commercial equity release based on public opinion on current retail schemes. Rowlingson and McKay (2005) note the following:

*While owner-occupiers think that Equity Release Schemes are a good idea in theory they are generally unhappy with the schemes currently in the market. This suggests the need for further development of these schemes, perhaps involving partnerships between central and local government, along with the voluntary and private sectors. Targeted support for older home-owners with low levels of income and equity might also be considered.*

5.3 This opinion is further backed up as follows:

*Over the last 10 years there have been renewed attempts to develop equity based products to help income poor, but (relatively) asset rich older owners...The providers are mostly utilising some element of subsidy to make deals affordable and do not operate for profit and are thus referred to as 'non-commercial'.<sup>46</sup>*

*In addition, according to Terry and Gibson (2006) a few local authorities and non-profit housing organisations have been creative in seeking to provide ways in which the least well-off home owners could raise money from their home for works to it. But their solutions have tended to require subsidy from the private sector. The scale of their operations is expected to remain small, even on their most optimistic estimates.<sup>47</sup>*

5.4 For the purposes of this scoping study a small number of these schemes are reviewed, where the key focus appears to be a mechanism to provide affordable finance.

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<sup>46</sup> Page 25, *Rainy days and silver linings: using equity to support the delivery of housing or services for older and disabled people*, DH Learning and Improvement Network, 2009

<sup>47</sup> *Obstacles to equity release*, Rachel Terry and Richard Gibson, 2006

**Home Improvement Trust<sup>48</sup>**

The Home Improvement Trust (HIT) offers a service known as 'HouseProud'. It operates nationally across England, Scotland and Wales, working in partnership with lenders and local authorities. HIT offers a range of equity release products to home owners over 60 to fund improvements and repairs carried out through Home Improvement Areas. The Trust offers three types of loan as follows:

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

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

**Aston Reinvestment Trust (ART) Homes<sup>49</sup>**

ART Homes aims to help homeowners repair and improve their properties by using their loan products. Their loans are only available in boroughs where the local authority has entered into a partnership with ART Homes, and indeed the loan offered can be tailored to meet the specific needs of the relevant local authority. There are five variations of the home loan product:

- A repayment loan with flexibility over the term and the interest rate. The term and the interest rate can be set to suit the strategy of the local authority.
- An interest-only loan where the term and the interest rate can be set to suit the requirements of the individual.
- A 'Faith' loan for homeowners with religious objections to conventional loans. The cost of providing the loan is met by a charge made for the service.
- A property appreciation loan (PAL) which was developed following research by the Birmingham University Centre for Urban and Regional Studies. The loan is calculated as a percentage of the value of the property (similar to LRS). The PAL is repaid when the property is sold or the homeowner dies.
- A discounted version of the PAL, developed to encourage take up of home improvement loans in a regeneration area, to fit in with the strategy of a local authority and reduce the use of direct grant. PALs are not subject to age restrictions, however the amount lent is generally limited to a minimum of £2,500 and a maximum of £40,000, or 50% of the property value if less.

<sup>48</sup> [www.hitrust.org](http://www.hitrust.org) and [www.houseproud.org.uk](http://www.houseproud.org.uk)

<sup>49</sup> [www.reinvest.co.uk](http://www.reinvest.co.uk)

**Community Development Finance Institutions (CDFIs)**

Two examples of CDFIs are reviewed below – Wessex Reinvestment Trust and the London Rebuilding Society – both of which have been supported by the Housing Association Charitable Trust (HACT). In their report (HACT 2007) *Adding more than value*, they provide the following definition and description of CDFIs:

*CDFIs are independent sector, not-for-profit, financial institutions that provide capital and support to individuals or organisations. Some are charities, some are companies and may describe themselves as 'social enterprises'. They lend, invest and provide business support in disadvantaged communities, deprived areas and under-served markets that cannot access mainstream funding...*

*They aim to generate financial returns as well as beneficial social outcomes. They will provide working capital, bridging loans, property and equipment purchase etc. CDFIs are financed from both public and private sources.*

**Wessex Reinvestment Trust (WRT)<sup>50</sup>**

Working with a consortium of 10 local councils in the Wessex area, WRT – a rural-based community development finance institution – has developed a home loans product aimed at home owners with low incomes whose properties are in disrepair, or at risk of falling into disrepair.

There are three variations of the home loan product:

- A capital and interest repayment loan from £1,000 to £15,000. The homeowner is subject to an interest rate of 3% pa. There is no minimum age and the maximum term is 15 years.
- An interest-only loan from £1,000 to £15,000. The homeowner is subject to an interest rate of 3% pa. There is a minimum age of 66 and no maximum term is 15 years. The loan is repaid when the property is sold or the homeowner dies.
- An interest-only loan from £1,000 to £15,000 where the interest is 'rolled up'. The homeowner is subject to an interest rate of 3% pa. There is a minimum age of 71 and maximum term is 15 years. The loan plus accumulated interest is repaid when the property is sold or the homeowner dies.

WRT are able to offer the low rate of 3% to homeowners as the local authorities subsidise this and pay a further 3% to WRT. Given that Councils would normally pay grants to such homeowners, subsidising the low interest is a much cheaper and more cost-effective method of funding essential maintenance and property repairs for such homeowners.

<sup>50</sup> Sources: [www.wessexrt.co.uk](http://www.wessexrt.co.uk) and Insight document (2007), HACT and the Housing Corporation – *Adding more than value – Inventive equity-based financial products*

**London Rebuilding Society (LRS)<sup>51</sup>**

LRS – a community development finance institution – received funding in excess of £5 million from the Invest to Save Budget of HM Treasury in order to pilot a social co-ownership scheme. Again, this scheme is aimed at homeowners with low incomes whose properties are in disrepair, or at risk of falling into disrepair. A survey of the homeowner's property is undertaken to establish its value and the items of work that are required. LRS will then pay contractors to carry out the work in return for an equivalent percentage share in the equity of the homeowner's property. The equity share is repaid when the property is sold or the homeowner dies.

This scheme – piloted in Newham – is based on equity reversion (a swap rather than a loan), and includes access to local home improvement agencies, home energy efficiency schemes and affordable maintenance packages, together with home surveys and access to a list of reputable builders.

Overall, the rationale for these projects is often based on two key factors – that older people often have lengthy waiting times to obtain grants and secondly that traditional lenders are unwilling to offer small, affordable loans, considering low income households not worth the risk. These projects therefore supplement current home improvement grants with community loan finance providing standard and interest-only loans on affordable and flexible terms.

- 5.5 In addition, JRF have developed a new model for equity release, which they are piloting in three areas. Whilst this model is still being tested and is expected to run until summer 2011 it is worth a brief mention in this section.

**Joseph Rowntree Foundation (JRF)<sup>52</sup>**

The JRF has been working with interested local authorities, the equity release industry and SHIP, and voluntary bodies representing older people and taken advice from relevant Government Departments, to come up with a solution to equity release problems. The following three local authorities are now piloting equity release schemes and these will be independently assessed by JRF:

- The Royal Borough of Kensington and Chelsea from November 2009
- Maidstone Borough Council from January 2010
- The London Borough of Islington from January 2010

<sup>51</sup> [www.londonrebuilding.com](http://www.londonrebuilding.com) and Insight document (2007), HACT and the Housing Corporation – *Adding more than value – Inventive equity-based financial products*

<sup>52</sup> *Can equity release help older home-owners improve their quality of life*, JRF, Terry, R and Gibson, R, January 2010

The key features of the pilot schemes have been identified as follows:

- the involvement of the local authority in drawing attention to the scheme and providing training for those likely to be talking to older people about it;
- the availability of relatively small sums (compared with other equity release loans) which can be drawn upon on demand, thus broadly matching the sums needed;
- minimising the risk of adverse effect on entitlement to benefits, by allowing initial drawings well below the savings threshold at which adverse effects begin and by allowing further drawings on demand; and
- ensuring that financial solutions other than equity release are examined, including checking that the customer is claiming all the benefits to which they are entitled.

A special equity release loan, the Home Cash Plan, has been developed for the pilot schemes by the equity release provider, Just Retirement, at fees significantly less than typical in this market.

### Other equity release options

5.6 There are a number of other equity release-type options – these are considered below.

#### *Shared ownership*

Research has also focussed on the potential to increase and further develop the opportunities for shared ownership – a type of equity share or release – for older people who are downsizing. In particular, if this is linked to schemes providing ongoing and increasing care as the person gets older, with this being linked to their share in the property.

#### *Staircasing*

Whilst not comparable to the equity release schemes referred to elsewhere in this Scoping report, staircasing as a concept – within the social rented sector – is worth mentioning.

In co-ownership or shared ownership schemes (such as those provided by some retirement villages/schemes) the individual usually has a right to buy more of the equity or stake they have in the property, i.e. staircase up. There is currently no equivalent right to staircase down, except in very exceptional circumstances.

The report by One Housing Group (2008) recommends that consideration is given to allowing older homeowners in specialist retirement housing to staircase down to fund care and support needs. Debates about how this should be funded (use of Recycled Capital Grant Fund) are ongoing.

*Staircasing down to release equity provides a potential alternative for funding care and support in specialist retirement housing, but no commercial products are currently available.*<sup>53</sup>

The Joseph Rowntree Housing Trust operate a number of schemes providing shared ownership, with the option of staircasing both up and down – defined as follows on their website<sup>54</sup>:

*With shared ownership you buy a share of your home and pay rent on the rest. You pay a percentage share of the full value of a property, paying rent on the portion not purchased. Equity percentages range normally from 25% up to 75% and shared owners can apply to purchase further shares at a later date, with the option of 'staircasing' up to full ownership. You also have the option to 'stair case' down to full rent in certain circumstances.*

### Issues emerging from the not-for-profit sector

5.7 In June 2006 the Social Market Foundation published a report titled *Home Made Money – a co-production approach to equity release*<sup>55</sup> the conclusion of which was that some form of government-backed national equity release scheme was required.

As outlined in Section 3, various commentators suggest that the product terms and distribution process in the retail equity release environment may be failing some consumers. Many of the suggestions in this sub-section are based on notes<sup>56</sup> from a meeting (August 2006) between a number of London-based interested parties (Which? London Rebuilding Society, Wessex Reinvestment Society, ART Homes and Fair Money), who were examining the options around a nationwide not-for-profit equity release scheme – *Fair Money for Homes*.

Which? has outlined the terms and conditions they would like to see on equity release products as follows:

- no exit penalties
- no early redemption penalties
- no initial charge
- loan minimum of £1,000
- ability to 'drawdown' equity release
- minimum age 65
- low interest rate (i.e. not exceeding Bank of England base rate) or equity share.

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<sup>53</sup> Insight document (2007), HACT and the Housing Corporation – *Adding more than value – Inventive equity-based financial products*, page 3 and 9

<sup>54</sup> Joseph Rowntree Housing Trust – [www.jrht.org.uk](http://www.jrht.org.uk)

<sup>55</sup> *Home Made Money – a co-production approach to equity release*, Social Market Foundation, June 2006

<sup>56</sup> See weblink – <http://www.towersoftaunton3.co.uk/whichequity.pdf>



- 5.8 It is clear – from even an early review of the current market – that commercial providers are some way from providing all of the above terms. However, it would appear that many of the not-for-profit providers are able to meet these requirements, not only because of their approach to product design but mainly because the cost of their capital is significantly cheaper (from grants, subsidies and social loans) and ultimately they are not seeking to make the profit commercial companies seek.
- 5.9 However, there is also recognition that whilst the schemes piloted above have been able to develop and create mechanisms to release equity through loans, this could not be replicated or extended to cover the potential size of the market that needs to be served. Further mechanisms therefore need to be examined – in terms of nationwide and fuller Government support for not-for-profit equity release. Various commentators have suggested different mechanisms by which low-cost capital could be raised to service a not-for-profit equity release scheme. In summary these are as follows:

#### **Industrial & Provident Society**

Potentially a not-for-profit vehicle (however, this does not stop returns being distributed to investors), and which can invite investment in a manner that is outside the financial promotions regulations (this is viewed as helpful by some – and unhelpful by others).

#### **Scheme which encourages social investors**

Whilst there are many social investors that might be willing to support such an investment, they are far too small in number compared to the investment that is required. Therefore some enticement, such as tax relief, is needed to encourage investors.

#### **Voluntary sector scheme**

Rowlingson and McKay (2005) found that in both their quantitative and qualitative research there was a great deal of interest in equity release schemes in theory, particularly if they were provided by trusted organisations such as the voluntary sector.

*The direct involvement of Age Concern England or other national organisations representing the interests of older people would doubtless do much for confidence among potential consumers. But they would need to be able to offer appropriate products.*<sup>57</sup>

- 5.10 Any discussion about the role of Government in equity release raises the question should the Government intervene? As many workable schemes within housing and social policy can be quoted, as for those which have not worked – have not met the need, have been based on an unresearched need etc – and this is of fundamental importance in taking forward any work within this sector.

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<sup>57</sup> *Older home owners and equity release: a review*, Appleton, 2003, JRF

Perhaps one scheme which, despite clear market research, has not met the intended need is the recently highly publicised Mortgage Rescue Scheme launched in January 2009 to help people avoid repossession at a cost of £200 million. Initial assessment found that it had helped only one household (April 2009). Despite over 3,000 households approaching local authorities taking part in the scheme in the first three months, take-up has not followed, although it is recognised that there have been issues around a lengthy application process and paperwork.

### **Equity release within and beyond the United Kingdom**

5.11 Research indicates that equity release markets in Australia, New Zealand and the USA – with the same underlying market fundamentals as the UK (growth in housing wealth, aging population etc.) – have developed more strongly than the UK. Further work in this area would merit fuller investigation of changing consumer attitudes to equity release, for example in Australia, as well as the issues that may have restrained growth in the UK. In addition, a fuller study on equity release would benefit from a review of developments within devolved administrations e.g. the Welsh Assembly's review of and approach to equity release.

## 6 Potential older people's market for Equity Release – in Northern Ireland

### Introduction

6.1 Up to this point this scoping study has looked largely at what equity release is, its perceived and established pros and cons and its availability in Northern Ireland. This Section makes an initial assessment of the potential market for equity release in Northern Ireland amongst older homeowners and makes suggestions around how this could be further investigated. In simple terms to address the following question:

*What is the slice of both the housing market and the older person's income/capital spectrum – for which equity release might apply and/or be of interest?*

6.2 It should be noted that whilst there is no academic or Government data or information on the current level of take-up of equity release in Northern Ireland, various commercial lenders have estimated the level of older people interested in and availing of equity release.<sup>58</sup>

### Demographics<sup>59</sup>

6.3 The number and comparative proportion of older people in Northern Ireland are on the increase. Life expectancy is increasing due to medical advances, birth rates are falling and as a result there are more older people living now, and living longer, than at any time previously in our province's history.

6.4 In real terms, at present older people (as defined above in the context of the state retirement age) represent 16.5% of the total population in Northern Ireland – that is 289,691 out of 1,759,148<sup>60</sup>. This is broken down by gender as 186,615 women aged 60 and over and 103,076 men aged 65 and over – the difference being attributed to both the variation in the age of retirement and also the longer life expectancy of women compared to men. Furthermore, there are 111,485 individuals aged 75 and over (6.3% of the total NI population).

6.5 By 2031, 22% of the population in Northern Ireland is expected to be aged over 65.

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<sup>58</sup> Research from Prudential suggested that there could be around 100,000 homes in Northern Ireland that are owned outright by people aged 65 and over and that collectively, they have as much as £24.36bn of equity in their homes. *Prudential info* <http://www.mortgagesolutions-online.com/public/showPage.html?page=827740>.

<sup>59</sup> Source: Based on review of demography in *Analysis of the need and demand for retirement villages in Northern Ireland in their various forms*, NIHE and Fiona Boyle, 2008

<sup>60</sup> Source: NISRA, Registrar General Annual Report 2007

## Contributing Factors

6.6 Together with the obvious factor of increasing numbers of older people (who are homeowners) and people generally living longer, there are a number of other current factors or market conditions which could result in higher levels of equity release take-up. It is useful to outline these as part of an assessment of the likely levels of both eligibility and interest.

### *Economic downturn – and so-called credit crunch*

The Business Scotsman<sup>61</sup> reported that *more homeowners struggling under the burden of the credit crunch are unlocking equity from their property to maintain their standard of living*. This statement was backed up by figures from one equity release adviser – Key Retirement Solutions – who highlighted the increasing sales of ER plans and an increase in the level of equity released. Their market review also indicated another clear trend – *the growing use of drawdown, which allows homeowners to take the equity in their home in stages, rather than as a lump sum*.

### *Pension situation and poverty levels*

The erosion of state pension levels (against actual cost of living) and inadequacies in company and personal pension provision may mean that older people are more likely to think about equity release. In some cases this is referred to as the concept of *too late to save*, whereby the older person has reached retirement without sufficient pension cover to provide them with the level/type of lifestyle they desire.<sup>62</sup> As a result, older people often have reduced incomes but with the same or indeed increased expenditure for example, related to keeping warm and well fed. Recent research (July 2009)<sup>63</sup> by the age charity – Age Concern/Help the Aged NI found *In households where the head of the household is over pensionable age, 24 per cent are living in poverty*.

Despite being written more than 20 years ago, the following statement still holds true. *This transition to pensioner status heralds a marked drop in income which is so evident in the widespread experience of poverty and low incomes among elderly people. A stark measure of this is the fact that elderly people are three times more likely to experience poverty than those below retirement age.*<sup>64</sup>

<sup>61</sup> Business Scotsman, July 2008

<sup>62</sup> For further discussion see Age Concern Financial Position paper at [www.ageconcern.org.uk/AgeConcern/Documents/FinancialServicespppOct07.pdf](http://www.ageconcern.org.uk/AgeConcern/Documents/FinancialServicespppOct07.pdf) and Equality Commission's paper on older people's access to financial services [www.equalityni.org/archive/pdf/OLDERPEOPLEFinancialservices\(F\).pdf](http://www.equalityni.org/archive/pdf/OLDERPEOPLEFinancialservices(F).pdf)

<sup>63</sup> Report – *The Truth about poverty*, 2009, Eileen Evason UU, Katrina Lloyd, QUB and Patricia McKee, UU

<sup>64</sup> *Pensions and the Production of Poverty in Old Age* in C Phillipson and A Walker, Ageing and Social Policy: a critical assessment, 1986

And a report by the Royal Commission on long-term care *With Respect to Old Age* noted the following:

*According to Government projections...pensioners overall are better off than they once were. They will continue, as a group to become better off. However, a large number will still have low incomes in retirement. So while some pensioners will be relatively well-off, and others not badly off, a large number may find themselves, for various reasons, living at or close to the poverty line as measured by the Department of Social Security. If they have savings these are likely, partly because of the encouragement to home ownership in the 1980s, to be tied up in bricks and mortar...<sup>65</sup>*

### What is the market for equity release in Northern Ireland?

6.7 Clearly it is important to identify firstly the numbers of older people in Northern Ireland who are owner occupiers – and who thus could potentially release equity from their homes. This is outlined below, using data from the NI House Condition Survey (2006).

6.8 However, the process of identifying who may be within the potential market is not as simple as this. Further factors need to be taken into account – for example, assessing those who as well as being asset-rich (and therefore having equity to release) are also income-poor – and who therefore have a real need or desire to release the equity. In other words, in the main, people who are asset-rich but also income-rich are less likely to want to release equity from their home. These assumptions are summed up as follows:

*The phrase 'house rich, cash poor' is often used to describe older people but Gibbs (1993) shows that this is an over-simplification of the real picture. His analysis shows that more than half of all older people have no housing wealth at all because they rent their dwelling.*

*Some 30% of older households have low or medium equity, with almost half of this group having a low income. Of the remaining 19% of households with high equity, two thirds have a high income. Consequently less than 6% of older households are 'house rich, cash poor', while more than half are both house poor and cash poor.<sup>66</sup>*

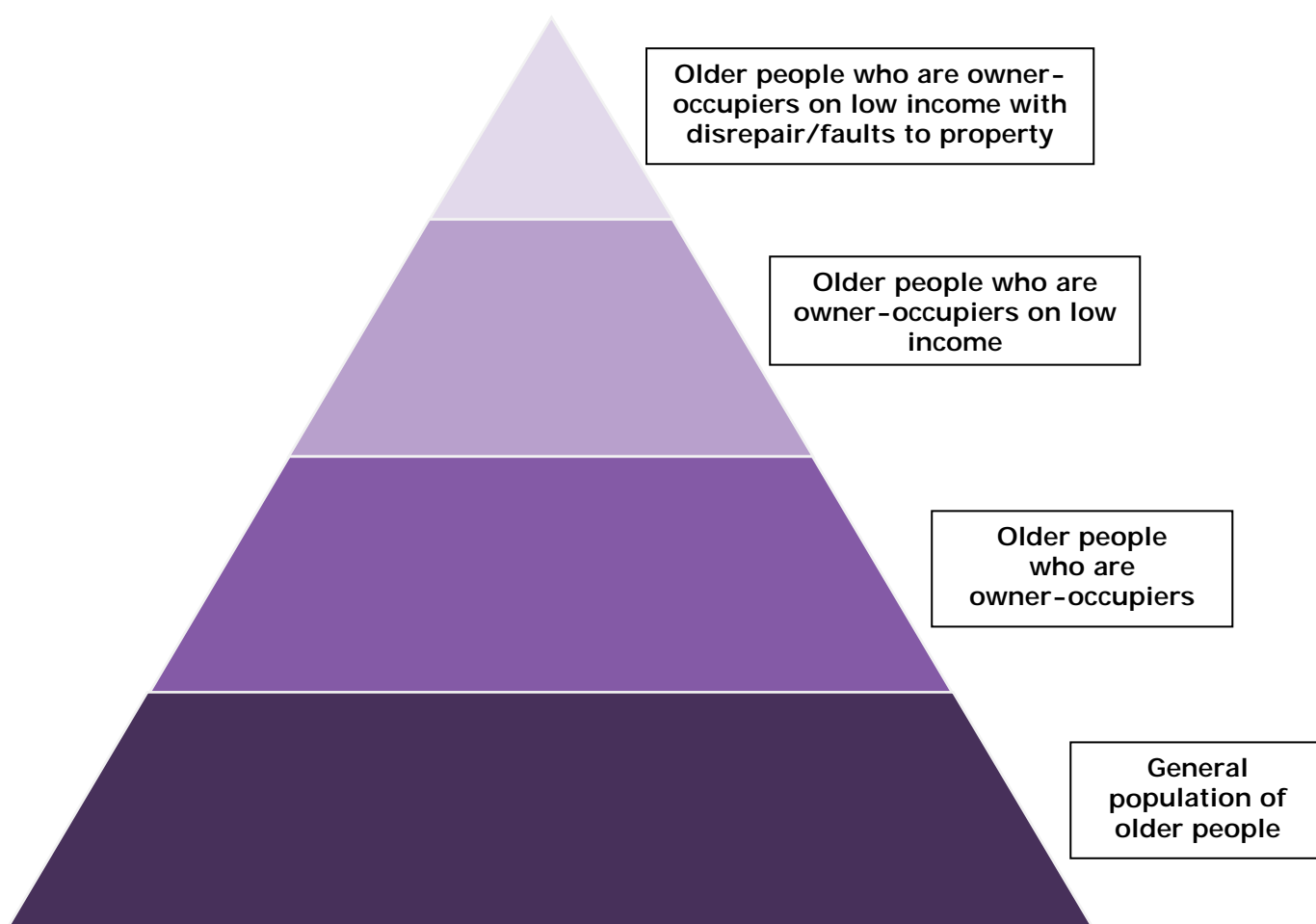
6.9 Much therefore depends on two factors – firstly, the value within the property and secondly, the income stream(s) available to the older person. A third factor comes into play in terms of their specific need for the equity – whether this is a lifestyle choice or to maintain/update their home. The reason(s) for equity release have been covered in Section 2.

<sup>65</sup> Point 1.4, Royal Commission on Long-term Care *With Respect to Old Age*, Chair – Sutherland, S, 1999

<sup>66</sup> Page 35 of Rolfe et al 1993

6.10 This sub-section therefore provides an initial overview of the likely numbers of older people in Northern Ireland who might be both eligible for and potentially interested in equity release products<sup>67</sup>. This calculation is based on information and statistics derived from the NI House Condition Survey 2006, which is managed and administered by the Research Unit, NI Housing Executive.<sup>68</sup>

This analysis is based on diminishing subsets of older people who are both eligible for and likely to be interested in equity release – these assumptions are based on need for income for current/potential house repairs – where disrepair has been assessed via the House Condition Survey<sup>69</sup>. These sub-groups can be illustrated pictorially as follows:



<sup>67</sup> No specific assessment has been made of an individual’s interest in equity release – assumptions are made on the basis of being older, being an owner-occupier, being on a low income and having some level of house disrepair.

<sup>68</sup> Information and analysis kindly provided by Jahnet Brown, NIHCS, NI Housing Executive

<sup>69</sup> This analysis does not take into consideration the sub-group of older people interested in equity release in relation to either lifestyle choices and/or care costs.

6.11 The data in Tables 6.1 to 6.4 have been extracted from the NI House Condition Survey 2006. These indicate the following about older people living in their own homes at the time of the survey, including the proportions on low incomes and whose properties had some level of disrepair and urgent repair needs:

- Almost nine out of every 10 'two older' households<sup>70</sup> (86.5%) were owner-occupiers –higher than the average percentage for all households in Northern Ireland (70.6%);
- however, a much smaller proportion, less than three fifths (59.7%) of lone older households were owner-occupiers – lower than the average figure for NI households (70.6%);
- nearly one fifth (18.8%) of older (both single and two person) owner-occupiers had an income of £7,000 and less;
- nearly half (45%) of older owner-occupiers had an income of less than £10,000;
- almost half (49%) of older owner-occupiers had some form/level of assessed disrepair within their homes – which was not dissimilar to the figure for all ages/tenures (50.6%);
- older owner-occupiers had a higher average urgent repair cost – average of £1,002 compared to £534 in all other age groups/tenures.

**Table 6.1: Household type by dwelling tenure**

	Owner-occupiers	Housing Executive tenants	Housing Association tenants	Private Renters and others	Totals
<i>Older Person Households:</i>					
<i>Two Older</i>	86.5% 88,610	8.1% 8,250	1.2% 1,270	4.2% 4,350	100.0% 102,480
<i>Lone Older</i>	59.7% 58,780	20.4% 20,140	9.7% 9,560	10.2% 10,010	100.0% 98,490
<i>All Other Households:</i>					
Lone Adult	52.0% 48,300	25.0% 23,220	3.2% 2,990	19.8% 18,350	100.0% 92,860
Two Adult	75.1% 66,870	9.0% 7,990	0.8% 720	15.2% 13,510	100.0% 89,090
Large Adult	84.9% 74,300	6.6% 5,780	0.5% 460	7.9% 6,930	100.0% 87,470
Small Family	80.2% 61,910	9.4% 7,250	1.0% 790	9.4% 7,250	100.0% 77,180
Large Family	83.4% 57,310	8.9% 6,130	2.3% 1,600	5.3% 3,670	100.0% 68,710
Lone Parent	20.6% 8,750	32.8% 13,940	9.3% 3,950	37.3% 15,810	100.0% 42,450
<b>All NI households</b>	<b>70.6% 464,830</b>	<b>14.1% 92,700</b>	<b>3.2% 21,340</b>	<b>12.1% 79,860</b>	<b>100.0% 658,730</b>

Base: 5,400 HCS inspections

Source: NI House Condition Survey 2006

<sup>70</sup> A 'two older' household comprises two people, related or unrelated, at least one of whom is of pensionable age, currently 65 plus for males and 60 plus for females.

Table 6.2: Annual Household Income by Tenure

	Older owner- occupiers	All other owner- occupiers	All other tenure groups	Totals
Less than £7,000	27,700 18.8%	13,370 4.2%	36,010 18.6%	77,080 11.7%
£7000- £9,999	38,610 26.2%	19,650 6.2%	63,040 32.5%	121,300 18.4%
£10,000-£14,999	44,900 30.5%	46,630 14.7%	58,760 30.3%	150,300 22.8%
£15,000-£19,999	18,320 12.4%	49,280 15.5%	17150 8.8%	84,740 12.9%
£20,000-£29,999	10,980 7.5%	69,950 22.0%	10,600 5.5%	9,1530 13.9%
£30,000 plus	6,890 4.7%	118560 37.3%	8,350 4.3%	133,800 20.3%
<b>All NI households</b>	<b>147,400</b> <b>100.0%</b>	<b>317,440</b> <b>100.0%</b>	<b>193,900</b> <b>100.0%</b>	<b>658,730</b> <b>100.0%</b>

Base: 5,400 HCS inspections

Source: NI House Condition Survey 2006

Table 6.3: Level of disrepair/faults\*

	Older owner- occupiers	All other owner- occupiers	All other tenures	Totals
No disrepair present	75,150 51.0%	168,940 53.2%	81,340 41.9%	325,430 49.4%
Disrepair present	72,240 49.0%	148,500 46.8%	112,560 58.1%	333,300 50.6%
<b>All NI households</b>	<b>147,400</b> <b>100.0%</b>	<b>317,440</b> <b>100.0%</b>	<b>193,900</b> <b>100.0%</b>	<b>658,730</b> <b>100.0%</b>

\* Disrepair/faults to interior, amenities, services and/or exterior to property

Base: 5,400 HCS inspections

Source: NI House Condition Survey 2006

Table 6.4: Average total urgent repair costs

	Mean	N	Standard Deviation
Older owner-occupiers	1002.6052	147,395	4975.35277
All other owner-occupiers	528.8234	317,437	2584.46333
All other tenures	543.4225	193,899	1963.75246
<b>Total</b>	<b>639.1320</b>	<b>658,731</b>	<b>3151.32550</b>

Base: 5,400 HCS inspections

Source: NI House Condition Survey 2006



## Conclusions around potential equity release market in Northern Ireland

- 6.12 Initial analysis indicates that there is a cohort of older people (and this will increase as more owner-occupiers move into older age) who are owner-occupiers on low incomes and living in properties with some level of disrepair. Indeed it is interesting to highlight that people living in two older households are highly represented amongst the owner occupation tenure – with five out of every six such households being owner-occupiers.
- 6.13 Further and wider market assessment would be necessary in order to establish a range of factors including an analysis of the property values amongst this cohort. This could be done by extracting addresses from the House Condition Survey – and obtaining capital value details of these from Northern Ireland Statistics and Research Agency.
- 6.14 In addition, market research into people's awareness/knowledge of and attitudes to/interest in equity release would be fundamental to establishing the current and potential increases in demand in this sector. This should also cover a review of people's inhibitions/barriers to equity release – and how these could best be overcome. Commercial/retail lenders are clearly already doing such scans for their own market purposes. In addition, any voluntary or private/public partnership entering the market is likely to fully investigate the nature and type of potential demand. Further work in this area by the NI Housing Executive could include market research and use of omnibus surveys to establish interest and demand levels. Furthermore, the House Condition Survey could also be utilised in this way.
- 6.15 Other factors also need to be taken into consideration. For example, whilst older people may be initially interested in equity release, it does not necessarily mean that this is the direction they will eventually take. Further understanding of the drivers and incentives within the equity release market would be necessary in any future research study.

*A better understanding of what motivates consumers to enter a contract for an equity release product would allow products to be refined to better match the needs and priorities of potential consumers. At the moment, the ratio of enquiries to contracts completed is high.<sup>71</sup>*

- 6.16 As noted in previous sections, some commentators suggest that equity release does not have the capacity to help those most in need. This issue needs to be taken into account in any proposed future assessment by the NI Housing Executive, in relation to their strategic aims to assist those in housing need – and whether equity release is best placed to be one part of a menu of choices for older people living in their own homes.

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<sup>71</sup> *Older home owners and equity release: a review*, Appleton, 2003, JRF

*Equity release does not, then, seem to have the potential for major reductions in poverty levels among older people in general, nor does it benefit those in the greatest poverty.<sup>72</sup>*

### Is it value for money?

6.17 In addition, perhaps the most important question for older people when considering their housing and financial options – and in particular whether to pursue equity release – is around value for money. In other words, is equity release the most cost-effective and reasonable financial approach to whatever the older person's financial situation/circumstances are (whether that be a need for cash/income for housing repairs and maintenance, lifestyle and or care costs)? And furthermore, if they could see the actual costs of releasing equity (and consequences on their future capital and income) would equity release be the best avenue to take? In any future discussion about the NI Housing Executive's consideration (or potential role in equity release) this is an important discussion point – as to whether the NIHE can or should recommend equity release in terms of a right decision for older owner-occupiers, particularly in relation to value for money.

6.18 Many critics argue that equity release is an expensive mechanism to raise cash – and that in most circumstances older people would be better off selling and moving to a cheaper property.<sup>73</sup>

*Someone looking to release £50,000 from a £250,000 property could be more than £150,000 worse off after 20 years by choosing the most expensive type of plan, rather than downsizing. Put another way, they are paying the equivalent of £7,500 a year to stay put.*

6.19 In addition, these are the conclusions of a study commissioned by the Financial Services Consumer Panel, which advises the FSA. The study was undertaken by actuaries – in most cases they suggested that it would be better value to sell up, though in some cases a lifetime mortgage worked out as the better option. Home reversion plans were found to be the most expensive option in almost all circumstances.

*Despite this the FSA consumer panel report did not conclude that equity release firms were profiteering and found their products were fairly priced. But John Howard, the panel's chairman, says: 'Customers should be aware there is no obligation on advisers to tell customers that downsizing without taking any financial product is likely to be the cheapest option.'*

6.20 On the other side of the argument, however, many older people wish to stay in their family home where they are settled and do not wish to go through the upheaval of moving. The positive factors relating to equity release have already been outlined in Section 3 – and given individuals' personal and very different circumstances, equity release may be a good option for many groups of older people.

<sup>72</sup> Page 38 *Home Ownership in later life – Financial benefit or burden?* Hancock, Askham, Nelson, Tinker, JRF 1999

<sup>73</sup> *Equity release a costly choice* Stephen Womack, Financial Mail 12 December 2006

## **7 Views of key stakeholders**

### **Background**

7.1 A series of semi-structured interviews (face-to-face and telephone) were held to ascertain key stakeholders' views on equity release and the potential for its further development in Northern Ireland. In particular, stakeholders were asked to comment on what they thought might make equity release work, including reference to a not-for-profit organisational model. Appendix 2 provides a list of the key stakeholders and their respective organisations and the list of questions.

7.2 This section is organised thematically under the following sub-headings:

- Potential for provision of equity release by commercial/retail banks in Northern Ireland
- Need and reasons for equity release – demographic and economic trends
- Understanding of equity release
- Voluntary Sector involvement and provision
- Potential for a partnership model
- What are the NI specific issues around equity release?
- What's available elsewhere?
- Longer term view – paying for old age?

### **Potential for provision of equity release by commercial/retail banks in Northern Ireland**

7.3 The commercial/retail banks which took part in this study indicated that, whilst they have fully assessed the potential of the equity release market, it is not a direction they would currently pursue. In their words, the main inhibiting factors are as follows:

- Equity release is a niche market with only a small level of demand – there are limited numbers of people to whom equity release is of interest/value (have to be older, owner occupiers, in need of cash release, with sufficient capital to release etc). They suggested that it does not have the critical mass needed for viability and development.
- Cost – they suggested that the market would not be profitable (at least initially) given the cost of set-up, infrastructure, intensiveness of selling equity release products, regulation and also the legal complexity and cost of legal advice etc.
- Pricing/Terms – they indicated that to make it profitable for the bank the pricing of products and terms available are not generous or flexible to the borrower – which in itself could be detrimental to their customer profile.

- Potential reputational risk – it was clearly a major concern of the banks that this form of business could result in potential claims – *becomes very messy and embroiled, very emotive*. In particular they noted the potential outcomes of negative media images around *taking advantage of older people and profiteering* should a family raise issues after an older person's death and subsequent sale of the property. Much of this discussion was based on their views on inheritance, asset retention within families and how equity release could raise questions about advice provided etc.
- Lifetime – the banks also indicated their concerns around the open-ended nature and unpredictability of the equity release arrangement. They noted that normal mortgage arrangements run for a set period of between 20 and 40 years – but that with longer life expectancy it would be difficult to predict the length of term of the mortgage.

7.4 The banks also raised issues around wider Government policy and funding – and queried whether equity release further dampens the housing market as older people are perhaps less likely to move house.

#### **Need and reasons for equity release – demographic and economic trends**

7.5 Interviews highlighted the need to establish specific need and demand for equity release, prior to any further discussions on options of developing a social enterprise or not-for-profit model. Specifically they suggested the need to establish the number of older people who are owner-occupiers and are asset rich and income poor, who therefore may have an interest or need to release equity. Interviewees referred to the middle income group – who would not be eligible for many means-tested benefits, but could have relatively low incomes in retirement.

7.6 Various suggestions were made around where information could be drawn from, including the New Policy Institute (statistics on poverty and social exclusion in NI), OFMDFM statistics from *Ageing in Northern Ireland*.

7.7 In particular it was suggested that it would be very useful if a postcode analysis could be undertaken of the profile (geographical, age, income range, property value etc) of those older people in Northern Ireland who have already taken up equity release. In addition, they noted that it would be useful to obtain feedback from current consumers of equity release (taking into account a variation in length of take-up) to establish their current views on the product they have bought and the longer-term implications of this. Specifically this analysis could investigate a range of positive and negative experiences. Interviewees suggested talking to family members in cases where inheritance has been reduced considerably, and also talking to older people themselves who have released equity and are content with the arrangement and how this has helped them.

## **Understanding of equity release**

7.8 All the interviewees highlighted a general need to investigate and establish what equity release is – and specifically what the general public understand it to be and what it can be used for. Suggestions were made around undertaking market research into this.

## **Voluntary Sector involvement and provision**

### **Potential for a partnership model**

7.9 These two aspects – whilst mentioned separately – are being reported on together as they are not mutually exclusive, and many of the comments provided related to a range of options around partnership models and the potential role of the voluntary sector.

7.10 A number of interviewees suggested the possibility of a recognised/ established age sector voluntary organisation becoming involved in the equity release process. In particular references were made to areas/roles including:

- Advice and signposting – a number of interviewees suggested that the NI Housing Executive should take a role in either (a) referring or signposting people to equity release providers, or (b) themselves providing some level of advice/assessment role for example, a Benefits check – to establish if equity release is the right approach.
- Marketing and promotional roles.
- Linking equity release to wider discussions about energy needs and fuel poverty.
- Releasing equity – to be held and only used for housing repairs with approved suppliers/builders – managed scheme with controls.

7.11 Various suggestions were made around how a not-for-profit model could be set up and these included the following:

- Provision of a bond of money – from either the public purse or privately financed – or a combination of both (Private Public Partnership).
- Social enterprise – similar to the set-up of the business units operating under the umbrella of the Bryson charitable group – that is all separate but with the name and track record of a managing group. This could integrate an approach of equity release being specifically used for house repairs, utilising bona fide builders/ workmen vetted and operating via the social enterprise. In other words, equity unlocked to service ongoing maintenance and essential home adaptations.
- Mutualised option – providing a mutualised option (outside of the private shareholder market) – for the benefit of those signed up to and using it.
- Bolt on to existing organisation – this was noted by a number of people on the basis that the public would already have confidence in, for example, a voluntary sector organisation with a good standing track record and reputation.

- 7.12 The availability of public funding for a Guarantee Fund or financial float for any not-for-profit equity release scheme provided much discussion, with interviewees noting the significant economic downturn, budgetary cuts and lack of new public funding for schemes such as this. Interviewees suggested that any further study should include discussions with the Social Economy Network and Social Enterprise Coalition. They also noted that various charitable funders – with specific interest in older people – may be interested in pump priming this type of development.
- 7.13 In discussing these alternative delivery models all the interviewees emphasised the need to include and involve the older person's close family in any discussions. There was also a feeling that the models described above would enable the older person (and therefore in the longer term the family) to hold the substantive value of their home. This discussion also provided a suggestion that any such scheme should not be referred to as 'equity release' – given poor perceptions around this name/terminology. There was also a feeling that any scheme should go wider than essential repairs and maintenance and should incorporate issues of energy and emissions.
- 7.14 Overall, a number of interviewees suggested that it might be useful for the NI Housing Executive to have a role in equity release. They presented the thinking that equity release is already happening – and so therefore it would be helpful if a Government body/agency provided either (a) some sort of policy stance on whether equity release is a good thing or (b) became involved in the actual process – again with reference to advice, signposting etc as noted above.
- 7.15 The interview with Age Concern/Help the Aged NI<sup>74</sup> provided a useful update around this voluntary organisation's plans to develop provision in the area of equity release.<sup>75</sup> At the time of interview (October 2009) the Chief Officer for this organisation indicated that they had recently gone out to tender to appoint a UK-wide equity release provider to work in partnership with them to provide an equity release scheme and products in Northern Ireland. The organisation has done considerable market testing and research through their research department – Age Concern Research Services. They have set up the infrastructure, are themselves FSA-regulated, have their own trading arm (Age Concern Enterprises - ACENT) and will be the main interface with the public – through website, telephone and advisers. They are particularly interested in developing a specific additional equity release product for the less well-off older home owners who are currently on benefits.

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<sup>74</sup> The merged Age Concern/Help the Aged NI organisation is now known as Age NI.

<sup>75</sup> There were previous Help the Aged products – but these were linked to Northern Rock which has now stepped out of this market.

7.16 Age Concern/Help the Aged NI also noted another indicator of need for the provision of an equity release service. Between April and December 2008, 8,403 individuals downloaded the Age Concern equity release fact sheet – the second most requested information sheet on their website.

### **What are the NI-specific issues around equity release?**

7.17 A number of interviewees suggested that there may be issues specific to Northern Ireland which need to be taken into account in any consideration of equity release and its development here. These are listed below, and at this stage have not been developed in terms of quantitative or qualitative evidence base:

- Agricultural policy and land ownership/systems of farming specific to Northern Ireland.
- Culture and continued linkages to close family/expectations of inheritance may be different in Northern Ireland in comparison to Great Britain.
- Urban/rural split with a high proportion of population in rural areas in Northern Ireland – with suggestions that equity release might be less likely in rural areas, in particular given linkages to farming property and also closer community links.
- Lower average incomes and higher dependency on social security benefits – may have implications for the need for equity release.
- Traditionally lower property values – and therefore less equity to release – although this may be overturned by the increases in property from 2006 – 2008.
- Economic downturn higher in Northern Ireland – so again potentially higher level of interest in equity release.
- Lower levels of disposable income in Northern Ireland, particularly amongst pensioners, because of higher costs of fuel, transport, electricity and basic foodstuffs such as bread.
- Age and type of housing in Northern Ireland – may potentially have a higher level of disrepair and older people living in owner occupation with urgent repairs needed – when compared to Great Britain.
- Legal differences in Northern Ireland in relation to housing and tenure.

### **What's available elsewhere?**

7.18 Most of the interviewees suggested that it would be useful to look outside of Northern Ireland: first, in terms of considering the different models of equity release available UK and worldwide, including not for profit models; second, some suggested looking at other options such as the Flexible Tenure scheme and staircasing – and how these could be adapted and developed around releasing capital. Thirdly, interviewees suggested looking more broadly at how policies and models operate in other countries to help and assist older people who are asset rich and income poor to stay in their own homes. In this final aspect interviewees posed the following questions:

- How do older people in other countries live a quality life?
- How does their respective government help them to do this?
- Whose responsibility is it to assist older people to continue living in their own home?

7.19 This also connected to discussions on wider housing policy – and how it either helps or prevents older people having a range of choices about their living arrangements. For example, reference was made to the lack of other suitable smaller level-access housing for older people.

### **Longer-term view – paying for old age?**

7.20 Interviewees expressed a generally held view that it is good if older people can stay in their own homes – comfortably and safely.

7.21 They also highlighted the need to consider the linkages to the health needs of older people – who remain in their own homes. It was suggested that any further study in the area of the need/demand for equity release in Northern Ireland should take into consideration both the Health & Social Services Board/Trust Older People's strategies and also the likely cost of older people's individual care.

7.22 The advantages of aging in place – of older people enjoying the benefits of living out their lives in their own homes – were recognised. With this came the suggestion that having sound, fair equity release products, to enable people to stay put, would be beneficial.

7.23 Interviewees also felt it would be useful to undertake a cost benefit analysis – to produce spend-to-save arguments around providing equity release in a not-for-profit model – in particular indicating how this could save the public purse further down the line in terms of an older person's housing, health and social needs.

7.24 A number of interviewees expressed an interest in establishing if equity release was good value for the consumer – and whether bodies such as the NI Housing Executive should be associated with it (public perception issues).



## 8 Conclusions and proposals for further research

### Introduction

8.1 This section provides a number of conclusions from the scoping study with some further suggestions around how this topic could be taken forward in further research by the NI Housing Executive. These are laid out in tabular format below, using the section headings from this report.

### Conclusions and proposals for further research

Theme/Issues: Equity Release	Conclusions from the scoping study	Proposals for further research
<b>Definitions and Terminology</b>	Section 2 provides an overview and range of definitions of equity release.	Additional literature reviews and discussions directly with providers would further develop this Section in a full research report. Further work could also be done on the development and production of worked examples of equity release products.
<b>Review of positives and negatives</b>	Section 3 provides an initial scan of the literature in order to present the case both for and against equity release.	Additional literature searches and reviews would undoubtedly produce a fuller understanding of the relative arguments for and against equity release – and how it can be a useful tool for some, but not for others depending on their financial and other circumstances.
<b>Overview of product availability in Northern Ireland</b>	Section 4 and Appendix 1 provide a brief overview of what is available here in Northern Ireland.	Further suggested work in an analysis of product availability should include speaking to the range of other providers (who don't currently provide in NI) to establish the market (and other) reasons for this.
<b>Non-commercial options</b>	Section 5 provides a brief overview of potential non-commercial equity release options in Great Britain.	This section could be greatly expanded – to learn from developments in other jurisdictions worldwide, for example Australia and New Zealand. In addition, it would be useful to study policy developments in GB jurisdictions e.g. Wales.
<b>Potential older people's market for equity release in Northern Ireland</b>	Section 6 provides a very basic and initial look at who could potentially be eligible for and/or interested in equity release.	This section would require the most input in a fuller research study. It is proposed that this should include further analysis using NIHCS data, analysis of other secondary data e.g. NISRA re property values and importantly, direct market research with the public to establish knowledge, awareness, perceptions and attitudes to equity release.
<b>Views of stakeholders</b>	Section 7 again provides an initial glimpse of the views of key stakeholders.	Clearly there is an opportunity to widen out the discussion and debate on equity release – both in terms of the type and expanse of stakeholder and in relation to the questions and how these are

Overall, I would recommend that this scoping report is studied by the NI Housing Executive's Advisory Group on research into the future housing and support needs of older people. Clearly there is scope to do further work in the field of assessing the need for and potential delivery models/options of equity release. However, given that Age Concern/Help the Aged NI is considering embarking on the development and delivery of such a model, I would suggest that it may be expedient to wait (for say one year) to see if any progress is made on the roll-out of this scheme, before carrying out any further work in this area.

# A P P E N D I C E S

**Appendix 1: Information on equity release providers lending in Northern Ireland**

Lender	Contact Details	Promotional information
<b>AVIVA Equity Release UK Ltd</b>	PO Box 520, Surrey Street Norwich , NR1 3NG Tel:0845 302 0111	Aviva is the world’s fifth largest insurance group and the biggest insurance provider in the UK. Offering a home reversion plan and a flexible range of lifetime mortgages, we provide a range of opportunities for those nearing, or fulfilling their retirement expectations. Since 1998, we have helped more than 85,000 customers release over £3 billion of equity from their homes.
<b>JUST RETIREMENT LIMITED</b>	Vale House, Roebuck Close, Bancroft Road , Reigate, Surrey , RH2 7RU Tel: 01737 233296	Just Retirement is a leading specialist provider of financial solutions for people at or in retirement and one of the largest equity release providers in the UK. Our Roll-Up Lifetime Mortgage is designed to help people over the age of 60 improve their financial security and lifestyle in retirement by providing them with the opportunity to convert some of the capital built up in their home into tax free cash.
<b>Halifax</b>	Halifax, PO Box 548, Leeds, LS11WU	Halifax offer a Retirement Home Plan - a lifetime mortgage. Not available via the Halifax branch network, the Halifax Retirement Home Plan can only be taken out through a range of qualified financial advisers.
<b>Scottish Widows</b>	69 Morrison Street, Edinburgh, EH3 8YF Tel: 0845 608 0371	Scottish Widows provides a Property account enabling the customer to release tax-free cash from their home. This account gives two options – a Flexible Lifetime Mortgage or a Fixed Lifetime Mortgage.

## **Appendix 2 – List of key stakeholders involved at Scoping Exercise stage**

Roger O'Sullivan, CARDI  
Anne Hillis, EHSSB  
Chris Williamson, NIFHA  
Anne O'Reilly, Age Concern/Help the Aged NI  
John McMullan, Bryson House  
Derek Wilson, Ulster Bank  
Alan Bridle, Bank of Ireland  
Bronagh O'Neill and Alison Armstrong, Equity Release Services NI

Data from the House Condition Survey have been examined - consultant met with Jahnet Brown, NIHE - who has extracted figures from the NIHCS 2006 - these help to provide a picture of the number of older people for whom equity release is likely to be a consideration or of interest.

### **Questions/Themes for initial discussions with key stakeholders September 2009**

#### **Background**

- Number of older people – demography
- Number of older people in owner occupation
- Financial issues for older people (particularly those in O/O) – asset rich and cash poor
- Level of difficulty within older people's sector – re maintaining and improving their own homes – unfitness etc.
- What are their options? Downsize, release equity etc.
- Reference to current economic and housing situation – credit crunch, drop in interest rates (and older people's reliance on their savings/interest) and downturn in house prices – what impact does this have on interest in equity release?

#### **Equity Release**

- Definitions – what is it?
- Discussion around equity release (private) and equity release (not-for-profit)
- What is it in particular for older people?
- Literature review of current/recent relevant research
- References in various Govt documents/strategies – NIHE and beyond – any suggestions on this?

#### **Nature and range of current schemes**

Assessment of the financial products which are currently available in (a) Northern Ireland and (b) Great Britain – and further afield? This would cover both the mainstream equity release products and not-for-profit schemes.

*Questions around:*

Who are the main providers?

What are the main products?

Why are some schemes/providers not available in NI?

**Assessment of Equity Release Schemes**

Examination of the pros and cons of equity release schemes – in particular referencing wider research/literature – and providing some case-studies as available. Examining schemes from the financial and beneficiary perspective. In addition, this section would include feedback from interviews with key stakeholders in Northern Ireland (e.g. Help the Aged, Age Concern, banks etc.) Probe to establish levels of interest and actual take-up in Northern Ireland – and evidence of this?

*Questions around*

In your organisation's opinion what do you feel are the main positives and drawbacks of equity release?

**Development in Northern Ireland**

This section would look at the potential opportunities and threats/barriers for development in this area in Northern Ireland – in particular looking at what it would be useful to have in Northern Ireland and how it might work. This section would also examine options around government funding being a component of any scheme and look at the requirement for means testing (and the impact of releasing equity on people's benefits).

Also ask about – relevant reading materials in this area, references in Govt/organisational documentation and signposting to other people/organisations for discussion?

### **Appendix 3 – Bibliography**

*Shaping the future of care together*, 2009, (Govt. green paper on social care)

*Loan finance to improve housing conditions*, DCLG, 2007

*Home made money*, SMF

*Please release me! A view of the equity release market in the UK*, Peter Williams, 2008

*Local government support for equity release*, Rachel Terry and Richard Gibson, 2007

*Attitudes to inheritance in Britain*, Karen Rowlingson and Stephen McKay, 2005

*Options for care funding: what could be done now?* Sue Collins, 2009

*Obstacles to equity release*, Rachel Terry and Richard Gibson, 2006

*Housing rich, income poor: the potential for housing wealth in old age*, D Maxwell and S. Sodha. 2005

*Rainy days and silver linings: using equity to support the delivery of housing or services for older and disabled people*, DH Learning and Improvement Network, 2009

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*With Respect to Old Age* – Royal Commission on Long Term Care, 1999 – Chair – Sutherland, S

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Rolfe, Leather and Mackintosh, 1993

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review,* Appleton for JRF

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