

CeRER Revision Guide

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Edition



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The Revision Guide, as with all our supporting material, is complementary to the main Textbook and will never replace the detail contained there. It was never written to reproduce the same text - that would serve no purpose. It does contain, however, bulleted summaries of the syllabus. These bullets are lighter in substance but retain the major points.

It is, essentially, a Revision Guide.

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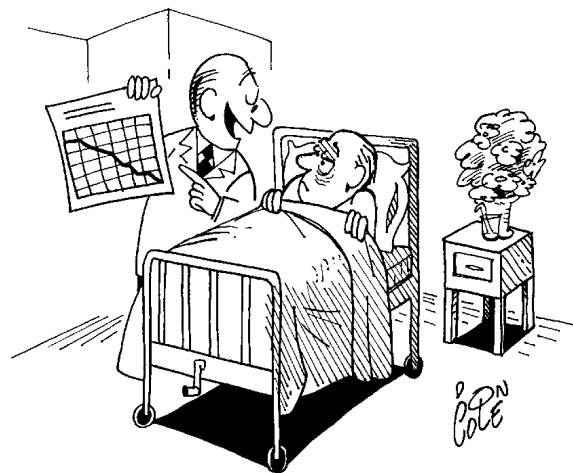
1 The Background to Equity Release

- Many people approaching retirement have a quandary – aspirations in excess of income. In some cases the problem is far deeper: basic needs exceed income. A large number of pensioners these days would be termed ‘asset rich and cash poor’.
- Home ownership in the UK has reached 70% compared with 54% in France. As can be seen from the table below, 60% of homeowners in the UK are over the age of 65.
- Property ownership in Great Britain by age of head of household:-.

Age	Owned Outright %	Owned with Mortgage %	Total % of Group
30-44	5	65	70
45-59	24	54	78
60-64	51	25	76
65-69	64	11	75
70-79	62	6	68
80+	56	2	58

Useful statistics

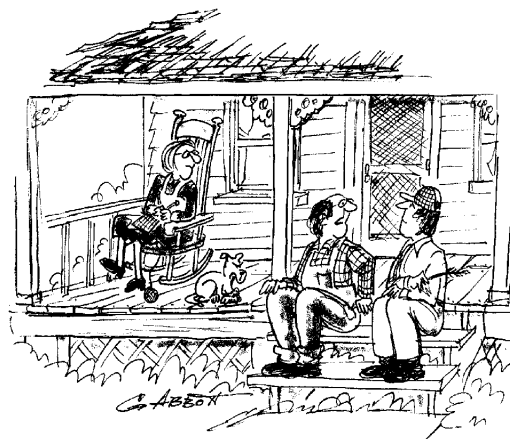
- There were 23,786 new lifetime mortgages arranged in 2006 totalling £971 Million
- In 2004 it was estimated that the total equity in property owned by people over the age of 65 is at least £1.1 Trillion.
- The same study also estimated that annual equity release sales would increase from the current £1 Billion to £2 Billion by 2010, and then to £30 Billion by 2031.
- At the end of 2007, Lifetime mortgage lending had reached £6.5 Billion.
- This is equal to only 0.59% of the whole market by value.
- Most pensioners will see a reduction in income of at least 37% when they retire, 1/3 will see a reduction of at least 50%.
- The average house value increased from £69,220 in 1997 to £196,002 in 2007.
- In a MORI survey in 2001, 44% of pensioners said they wanted to spend more time on leisure and hobbies; 37% said they wanted to travel and take more holidays.
- In February 2007, Credit Action stated that over 50% of UK pensioners live on £15,000 or less each year. 1.4 Million receive £5,000 or less.



"FIRST, THE GOOD NEWS IS YOU'LL SOON STOP HAVING COLDS!"

Types of Equity Release

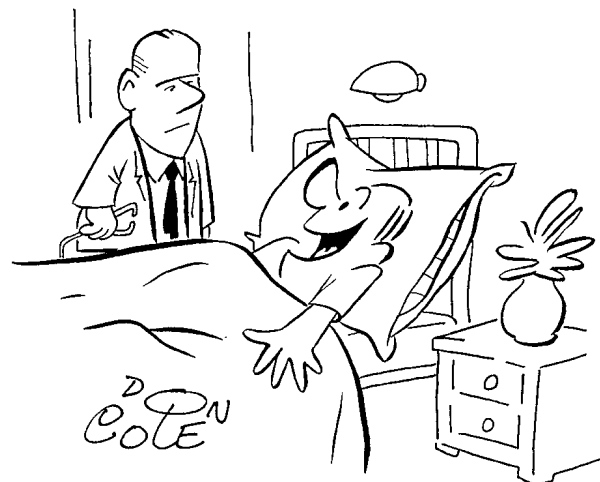
- Lifetime Mortgages
 - The FSA defines lifetime mortgages as mortgages where the borrower is not required to pay back the loan until he moves house, goes into residential care or dies.
- Home Reversion Schemes
 - A home reversion scheme is different to a lifetime mortgage.
 - The homeowner sells some or all of the property to a home reversion provider in exchange for a cash sum or an income.
 - The original owner retains the right to live in the property until death by the establishment of a lifetime lease.
 - On death or a move into residential care, the property is sold by the provider.



"I WOULDN'T SAY THAT HELEN IS OLD, BUT SHE'S SEEN THE SEVENTEEN YEAR LOCUSTS THREE TIMES NOW."

Who is Equity Release for?

- There are 2 types of homeowner that the plan is particularly aimed at:
 - The homeowner who wishes to realise the value of his/her assets – this could be called the aspirational sale.
 - The homeowner who needs to realise the value of his/her assets – this could be called the need sale.
- Equity release is not suitable for those who have no real need for extra cash or income.
- There may be a number of needs or aspirations that will drive the homeowner to consider equity release:
 - There may be a need to boost retirement income.
 - Ambitions to improve their homes.
 - Many aspire to travel extensively when they retire or even buy a property abroad where they can spend half the year.
 - Some grandparents would like to be able to help their grandchildren with education or housing costs.
 - To provide cash to fund long-term care or private health care.
 - Inheritance Tax – whilst not designed or intended as an inheritance tax plan as such, equity release does reduce the value of the estate by reducing the net value of the property left on death.



"A MIRACULOUS RECOVERY?! THANK GOD! I WAS AFRAID I WOULD HAVE TO PAY YOU!"

Equity Release – The History

- In the late 1980s a number of mortgage-based equity release schemes were launched where the capital raised was used to buy an investment bond or purchased life annuity. The income was then used to repay the loan interest and provide an income; in some cases, the mortgage interest was rolled up, leaving the bond to provide just an income.
- The theory was that the investment returns on the bond would be sufficient to cover the requirements but, by the early 1990s it became obvious that there were 3 main problems with this approach:
 - In most cases, variable interest was charged on the mortgage; by mid 1990 the standard variable rate reached 15.4%, therefore for many the income provided did not cover the mortgage payments.
 - Investment returns fell dramatically as a result of the poor economic environment. This meant that the value of the bonds fell below the initial amount invested, yet those who had to pay monthly interest still had to withdraw money each month. At best, those who had interest roll-up had to stop taking an income from the plan.
 - House prices fell. Those with interest roll-up schemes saw the debt rising very quickly.
- Investors who took out this sort of scheme were eventually compensated in most cases, but the whole episode left pensioners confused and apprehensive about equity release.

Role of Financial Advisers and Solicitors

Financial Advisers

- The role of the financial adviser is to:
 - Assess the customer's needs and objectives
 - Assess to customer's financial and personal situation
 - Recommend a suitable solution to the needs identified from the range of products available to him

Solicitors

- The solicitor's role is to:
 - Ensure the customer is aware of the implications of the change of ownership in the case of a home reversion plan or of mortgaging the property in the case of a lifetime mortgage
 - Ensure that the customer understands the recommendation and the obligations contained in the agreement
 - Ensure the customer is aware of any legal issues relating to the proposed arrangement.
 - Really, the solicitor's role is to act as an independent safety check for the customer and to ensure he is aware of the legal position..

Regulation and SHIP

- Lifetime mortgages have been regulated by the FSA since mortgage regulation was introduced in October 2004. Home Reversion Plans have only come under the auspices of the FSA with effect from April 2007.
- Prior to the FSA taking regulatory responsibility for these mortgages, the main form of protection came from the SHIP (Safe Home Income Plan) Code of Practice.
- Safe Home Income Plans was formed in 1991.
- Home Income Plans here refers to any scheme that makes use of the value of a property to generate income (or a lump sum), rather than just the specific lifetime home income product.
- SHIP members are bound by a code of practice, the key elements of which are:
 - 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/her choice. In all cases, prior to completion of the plan, the solicitor will be provided with full detail 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 and whether part or all of the property is being sold.
 - All SHIP plans carry a 'no negative equity' guarantee.
- SHIP is not a regulator.

The FSA Conduct of Business Rules

The Sales Process

- Certain key principles apply:
 - The adviser or firm must ensure they know their customer
 - The adviser or firm must ensure the recommendation made is suitable for the customer's needs
 - The customer must be given sufficient information about the product to able to make an informed decision
 - Any information provided must be clear, fair and not misleading
 - Where regular payments are required from the borrower (in the case of an interest-only lifetime mortgage) the arrangement should be affordable
- MCOB rules assert that a home reversion plan or lifetime mortgage will be suitable if:
 - The benefits outweigh any adverse effect of the customer's entitlement to any means tested benefits or tax position
 - Other alternative products have been assessed as less suitable
 - In the case of a lifetime mortgage requiring monthly payments, the payments are affordable
 - The product is appropriate to the needs, objectives and circumstances of the customer
 - The product is the most suitable that the firm has available from within the scope of its service to the customer.

Disclosure

- Initial Disclosure Document – must be given to the customer at the start of the first face-to-face meeting with the adviser.
- In the case of telephone sales, the IDD information must be covered at the start of the call and a copy sent to the customer within 5 days.
- The content of the product disclosure document (also known as 'key facts about this lifetime mortgage/home reversion plan') must be presented in a font and typeface that is legible to the typical customer.
- Specific MCOB rules also prescribe what areas must be covered in the product disclosure document and in what order they must be set out.

Financial Promotions

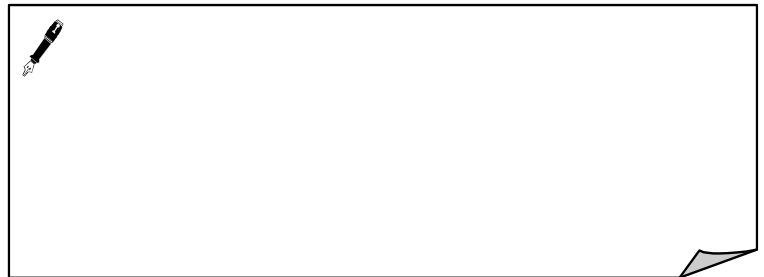
- They are not allowed unless they are undertaken by an authorised individual or the content has been approved by the authorised individual.
- For non-real time promotions:
 - All qualifying lifetime mortgage or home reversion promotion must be clear, fair and not misleading
 - For home reversion promotions – the promotion must only call the plan a 'home reversion plan' and state that the customer should ask for a personal illustration to understand the features and benefits
 - A promotion for a home reversion plan must give as much prominence to the disadvantages as the advantages of such a plan
 - The firm must keep records of all non real time promotions for at least 12 months from the time they were last communicated.

Self Test Questions

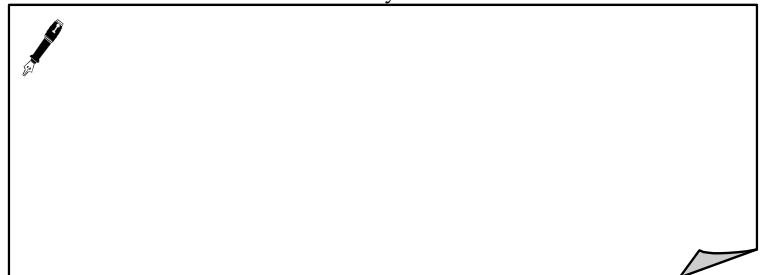
- 1 What term could be used for a person who owns a property worth £380,000 outright but has very limited income?



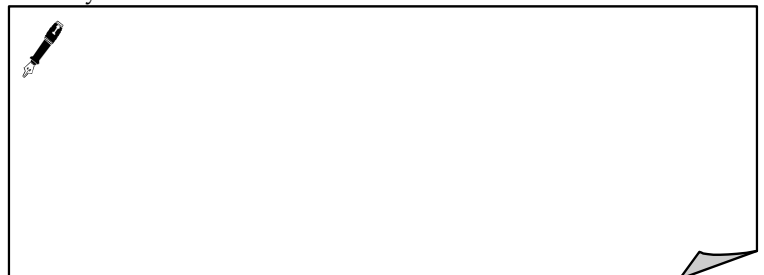
- 2 What percentage of homeowners in the UK are aged 65+?



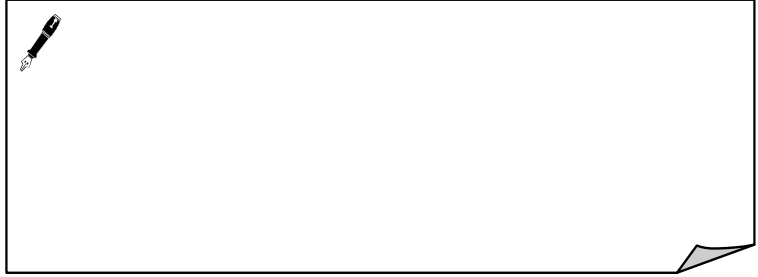
- 3 What fraction of pensioners see a reduction in their income of at least 50% when they retire?



- 4 What is the estimated value of annual equity release sales by 2010?

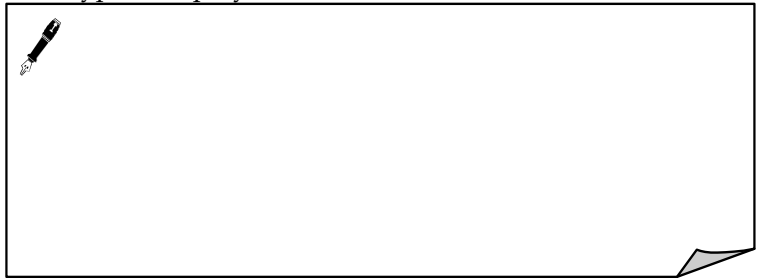


5 What is the FSA's definition of a Lifetime Mortgage?



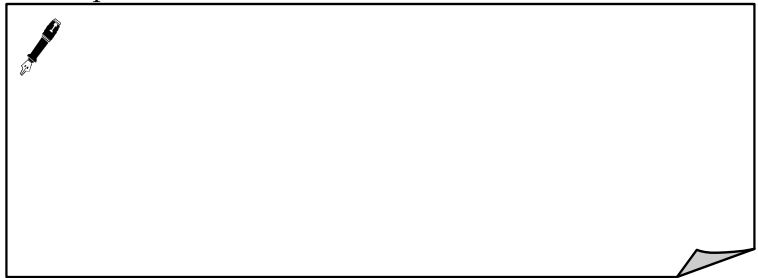
A rectangular box for writing the answer to question 5. It contains a small icon of a pen nib in the top-left corner and a folded-corner effect in the bottom-right corner.

6 Who are the 2 types of homeowner that equity release is aimed towards, and what could each of these types of equity release sale be called?



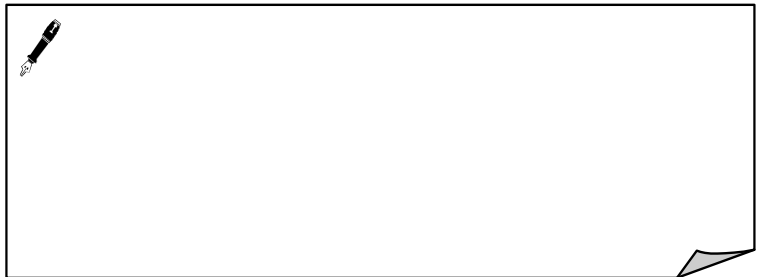
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7 What were the 3 main problems with many equity release plans in the late 1980s - 1990s?



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8 What are the 4 key points of SHIP's Code of Practice, to which its members are bound?



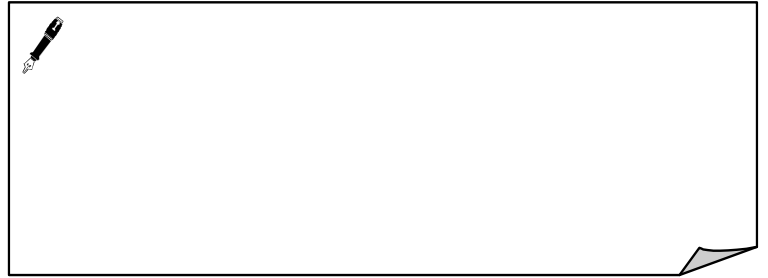
A rectangular box for writing the answer to question 8. It contains a small icon of a pen nib in the top-left corner and a folded-corner effect in the bottom-right corner.

9 For what period of time must a firm keep records of all non real time promotions after they were last communicated?



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- 10 In the case of telephone sales, within what timescale must a copy of the Initial Disclosure Document be sent to the customer?



Self Test Answers

- 1 Asset rich, cash poor
- 2 60%
- 3 1/3
- 4 £2 Billion
- 5 A mortgage where the borrower is not required to pay back the loan until he moves house, goes into residential care or dies.
- 6 The homeowner who wishes to realise the value of his/her assets – this could be called the aspirational sale.

The homeowner who needs to realise the value of his/her assets – this could be called the need sale.

- 7 In most cases, variable interest was charged on the mortgage; by mid 1990 the standard variable rate reached 15.4%, therefore for many the income provided did not cover the mortgage payments.

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The SHIP certificate will clearly state the main cost to the householder's assets and estate e.g. How the loan amount will change and whether part or all of the

property is being sold.

All SHIP plans carry a 'no negative equity' guarantee.

- 9 At least 12 months.
- 10 In the case of telephone sales, the IDD information must be covered at the start of the call and a copy sent to the customer within 5 days.