future HIA project

future HIA

Lending Some Comfort

Funding for repairs and adaptations

Home Improvement Agencies

Making Homes Warm, Safe & Secure

About the future HIA project

In Autumn 2007 Foundations, the National Co-ordinating Body for Home Improvement Agencies, was commissioned by Communities and Local Government to carry out research and produce a report examining the options for the future delivery of Home Improvement Agency (HIA) services. The report will draw on examples from within and outside the HIA sector to highlight possible areas for development. It will not present a 'one size fits all' model, but a series of options that may be appropriate depending on the identified needs of the local population, also taking account of other services already provided.

The project will test the hypothesis that HIAs can be the hub around which vulnerable clients can exercise choice about their home environment, and look at what factors might influence the success or failure of such an aspiration.

This report examines the role of HIAs in assisting their clients to fund repairs, adaptations and improvements to their homes using a variety of possible routes. It provides examples of good practice as well as considering the key issues to be addressed in order to achieve real growth and development within the sector.

Acknowledgements

We would like to thank the following HIAs for their contributions to this report.

- Anchor Staying Put – Birmingham
- Anchor Staying Put – Newcastle Gateshead
- Anchor Staying Put – South Manchester
- Black Country Care & Repair
- Bristol Care & Repair
- Manchester Care & Repair
- Rochdale Home Improvement Agency
- Sheffield Stay Put

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Section 1 – Background

1.1 Introduction

This report looks at what HIAs do to help clients find ways of paying for repairs, adaptations and improvements. Funding is a essential component of the HIA service and without it agencies would not be able to fulfil their principal objective of helping vulnerable people to remain living independently in their own homes. Many leading agencies have approached this task with commitment and creativity and, in the process, become experts in finding solutions, often involving a mix of funding sources, to meet clients' needs.

Since Foundations became the National Co-ordinating Body for the HIA sector eight years ago, the funding position for clients has become increasingly complex. We have moved from a picture of widespread grant availability, where the role of many HIA workers had become centred around the administration of grant applications, to a point now where grants are no longer universally available; where policy changes and demographic factors seem likely to continue the trend towards greater diversification of funding routes; where it is therefore only possible to meet the needs of clients through acquiring the skills and knowledge to guide them through a wide range of possible funding sources.

The growth in prominence of loans and equity release products as one of a number of alternative funding sources has presented a unique challenge for the sector. There are some voices objecting to the very principle of seeking to provide loans mostly to people on low incomes and vulnerable people and there are others who question their effectiveness in meeting HIA clients' needs. Where subsidised loan products are concerned, questions are also raised as to their overall value for money when compared to grants. Amidst all the debate, a growing number of agencies have grasped the nettle and are working with a range of products and, in doing so, are helping to shape their development and delivery nationwide.

The report sections will:

- look in more detail at the policies which lie behind the changes in funding sources
- consider the main elements of the HIA approach to assisting clients to look for funding
- examine loan products and equity release in more detail, giving details of schemes which are currently operating and examining the different roles of HIAs in this field
- consider the main legal and regulatory implications for HIAs.

1.2 Policy context

Changes to the funding framework for HIA clients were precipitated by the Regulatory Reform (Housing Assistance) (England and Wales) Order 2002 (RRO), which encouraged the development of alternatives to grant-based funding for repair work. There were several factors influencing the development of this key piece of legislation:

- The growth in the number of vulnerable older people (due to increased longevity), many with inadequate pension provision and low levels of personal savings, coupled with the growth in owner-occupation as the main form of tenure
- An acknowledgement that continuing to provide grants to meet housing repair costs would place an unsustainable burden on the public purse
- The surge in property values in recent years has resulted in considerable free equity in people's homes. A recent Institute of Actuaries Report[1] estimated that the aggregate housing wealth of the population over the age of 65 now stands at around £1,100 billion, i.e. over £1 trillion.

[1] *Equity Release Report, Institute of Actuaries, 2005*

The RRO gave local authorities greater freedom to maintain the decency standards of their private sector housing stock and it made way for the development of a variety of funding models which could be tailored to suit local priorities. At the time the Order took effect, HIAs were held up as good examples of how to achieve a mixed funding solution:

"A good quality HIA service is able to offer vulnerable householders options and choice, independent advice and assistance, flexibility in tackling their problems, and can broker collaborative solutions to housing-related needs. To enable them to achieve this they will frequently have to mix funding sources to deliver the appropriate scheme of work." [2]

Although grant assistance continues to play its part and is still the main source of funding in many authority areas, this year's capital housing allocations to local authorities saw a sizeable cut in the funding available for repair grants, and there have been clear signals from regional housing boards that in future a grant-only approach by a local authority will not make for an effective funding bid. Lifetime Homes, Lifetime Neighbourhoods, the National Strategy for Housing in an Ageing Society, updated and reinforced the policy view that a range of different options is required to meet the housing needs of older vulnerable people, and also pointed directly to the need for reliable information in this area (p.57):

"…equity release may be an option, through a loan scheme, or through moving on to a smaller property which is easier to maintain and cheaper to keep warm, particularly in the high property value areas of London and the South East. Many more people would consider the option, either of modernising or repairing their current homes or moving to smaller, more manageable and flexible properties, if they felt they could rely on the information and products available."

1.3 The challenges of turning policy into practice

Since the enactment of the RRO, resistance from potential borrowers and commercial lenders has led to a gap opening up between the aspirations of public policy and the market in loan products for vulnerable people. From the consumers' point of view the main barriers are:

- a concern about losing ownership of their home
- an aversion to being in debt
- the high administration costs of some products
- fears over affordability and the complexity of the many products on offer
- the poor reputation which was associated with earlier commercial equity release products.

There are difficulties establishing any real market in loans for vulnerable people due to the reluctance of most commercial lenders to move into an area of business which promises only a low-level, slow rate of return.

In the HIA sector, the current position is that many agencies, reflecting the concerns of their clients, have been slow to develop expertise in loan products, preferring to seek alternatives with less cost and risk. An online survey carried out by Foundations in March 2008 found that 65 out of 104 HIA respondents reported little or no use of loans[3] by their clients. Just under half (45%) of this group said that clients refused to consider loan options, 28% said that they were able to find funding elsewhere, while 16% of responses indicated that the HIA did not have capacity to give information on loan options or they had specifically been told not to discuss loans. Anecdotal evidence from Foundations' ongoing dialogue with agencies around the country would suggest that for a much larger proportion of the whole sector there are blockages due both to the lack of competency to give guidance about loan options and an unwillingness to do so based on the belief that it would not serve the best interests of the client.

2 Page 53, ODPM Circular 05/2003, Housing Renewal
3 Defined as 10 or less clients using loan products in the previous financial year

1.4 The future prospects for change

A report by DTZ Pieda[4], published by Communities and Local Government in 2007, evaluated new forms of finance to improve housing conditions for vulnerable owner-occupiers. The report concluded:

". . . in order to adequately meet the needs of vulnerable owner-occupiers, delivery models need to be locally based at the engagement end and, at least, regionally based at the loan issuing end."

There is some evidence that models based on this general approach are starting to take hold in pockets around the country. Perhaps the biggest driver for change is that regional authorities are investing in start-up costs for the development of regional loan products and many local authorities are starting to adopt some of these products to complement or replace their existing grant-based options. We may soon witness a tipping point towards the use of loans directly as a result of grants becoming less available. This fits with another finding from the same report:

"Our research suggests that vulnerable owner-occupiers will take out a loan for repairs and maintenance provided the terms are acceptable, that they believe the works are absolutely necessary and they have no alternative, such as recourse to savings."

If, as seems the case, loan products begin to oust grant provision in most areas, HIAs will need to develop their role in supporting their clients through the process of selecting the right route to funding. The market shows greatest maturity around the use of subsidised loans products and many of these are already relying on willing HIAs to act as a key partner in their delivery.

4 *Loan finance to improve the housing conditions for vulnerable owner occupiers, CLG, April 2007.*

Section 2 – Supporting clients to find funding for work

2.1 Duty of care

The starting position for HIA staff in supporting clients is that they focus on the clients' needs and assist them to decide, plan and implement a course of action to address those needs. There should be no predetermined agenda or preferred options, and this relates as much to assessment of what work is required as to consideration of how it can be paid for.

All HIA staff have a duty of care towards their clients and they must try to minimise the risks their clients face, both in having their required work done and finding ways to fund the work at the lowest cost. In order to meet this duty of care, several areas of practice have to be addressed:

- HIA staff must act at all times as agents for the client and nobody else
- HIA staff should never pressure or advise clients to take a particular course of action
- With the client's permission, family members should be encouraged to become involved in the decision-making process
- HIA staff need to be familiar with all the options open to clients so that they are given the most complete information when considering how to pay for work
- HIA staff need to follow agreed procedures to ensure compliance with Financial Services Authority (FSA) regulations and Consumer Credit legislation – see Section 2.5
- HIAs should ensure local expert financial advice is available if a client has the option of taking up an interest bearing or equity swap loan, and establish a list of local Independent Financial Advisors (IFAs) who can demonstrate they are knowledgeable about the financial risks to, and concerns of, vulnerable clients.

2.2 Clarifying clients' requirements

The support process starts when repairs, improvements or adaptations are identified and agreed and priorities are established. The client's entitlement to social security benefits is checked either by the HIA's staff or by other agencies operating this service. This is both to raise the client's income and increase the range of grants and other assistance they might become eligible for. Clients' needs that are outside the scope of the HIA services will also be identified and additional help from other organisations might be required.

2.3 Selecting a course of action

The next stage in the process is that:

- options for addressing clients' needs are identified
- clear, full and accurate information is given to them, including the funding of any works.

Potential consequences, advantages and disadvantages of options are discussed and clients' views and understanding are explored. The client is assisted to reach a decision on the most appropriate course of action to address their needs. Ultimately the client has the right to say "no" and to do nothing if that is their wish after all options have been explained.

2.4 Implementing a course of action

Finally, methods to implement the selected course of action are identified and any difficulties and issues with them are discussed in order to arrive at the method most likely to succeed. Actions to deal with other needs that cannot be met by the HIA are identified and agreed. An action plan is developed and recorded which specifies the methods, timescales and responsibilities for delivering the clients' requirements.

2.5 Legal implications for HIAs where loan products are involved

When considering the legal implications of providing clients with guidance on loan products, a number of factors are relevant:

- **The circumstances of the client**, in particular whether or not they are in a position to consider a range of different products or whether, as is the case with many HIA clients, there are few alternatives available
- **The type of product under consideration**, and whether it is being offered by:
  - a commercial loan provider, or
  - a local authority, or an intermediary working with the authority.
- **The way in which the HIA assists a client** – distinctions here are drawn between information and advice.

The circumstances of the client

The typical HIA client has a low income and little or no savings, and would not be eligible for many commercial loan and equity release products as they would be unable to afford the set-up costs and/or the regular repayments required. For the typical HIA client, loan options are often limited to products where set-up costs or repayment rates are subsidised – usually by the local authority. Most subsidised loan products are likewise only available through local authorities, and their intermediaries, to people who would be ineligible for commercial products.

For the typical client described above, the lack of alternatives, and the fact that their only loan option is a local authority subsidised product, means that the task for HIA staff is fairly straightforward in making the client aware that such limited loan options exist. Advising the client how to choose from a range of subsidised products is clearly a separate task to be carried out by suitably trained staff employed by the local authority or its intermediary.

If a client does have a higher income or savings or wants to raise funds for additional reasons (such as providing extra income), or other factors lead to a wider range of options being available for consideration, the client should be referred to an expert financial advisor. This might be an independent financial advisor (IFA), a bank, building society or an FSA-registered intermediary like the Home Improvement Trust (HIT) or ART Homes (details of which are given in Section 5). More details on the role of IFAs are given in Appendix 2.

Type of product

Commercial loan products which involve a first charge on a property (where the loan is the primary debt secured against the property, giving the lender the right to force a sale to recover the debt if payments are not kept up) are strictly regulated by the Financial Services Authority (FSA). Other loans and credit arrangements which do not involve a first charge may otherwise be subject to the terms of the Consumer Credit Act 1974 (see appendix 4). At the present time there is one nationally available commercial product aimed at typical clients of HIAs – the Home Improvement Trust/Houseproud range of loans (see Section 5.3). This service provides its own expert financial advice, which is entirely seperate from any information which HIA staff may give about the product.

For subsidised loan products, the regulatory regime is different. Loan schemes provided by local authorities and registered social landlords are exempt from FSA regulations. This exception is allowed on the basis that a **'comparable'** quality of service is provided to customers. Guidance for local authorities and registered social landlords on service standards was issued in 2005[5].

Further information about selling commercial and subsidised loan products is given in Appendix 3.

The Consumer Credit Act 1974 covers a wide range of loan and credit arrangements and sets out the requirement for a licensing scheme operated by the Office of Fair Trading. If HIAs were to go as far as recommending certain types of loan product to pay for works, they would require at least a Category C (credit brokerage) licence under the legislation. Details of the qualification criteria for a category C licence are given in Appendix 4. If any agencies are unsure about their liabilities under the Consumer Credit Act, they should seek independent legal advice on the matter.

The way in which the HIA assists a client

Giving **advice** about FSA-regulated loan products is a regulated activity, whereas providing **information** usually is not. In the view of the FSA:

- **advice** requires an element of opinion on the part of the adviser; in effect, it is a recommendation as to a course of action
- **information**, on the other hand, involves statements of facts or figures.

In general terms, simply giving **information**, without making any comment or judgements on its relevance to decisions that the borrower may make, is not regarded as **advice**. For example, **information** could be given as:

- an explanation of the terms and conditions of particular options
- a comparison of the features of one mortgage or another
- leaflets or illustrations that help borrowers decide which type of mortgage to take out.

If a HIA caseworker were to recommend a particular equity release or loan product, this would be viewed as **advice** and would fall within regulation. If the caseworker recommended that the client considered a number of options including loans and equity release, this recommendation is too general to fall within regulation. However, if the information provided is on a selective basis (which might influence the client's decision) rather than a balanced and neutral basis, this may be regarded as **advice**.

[5] *Mortgage Sales Guidance for Local Authorities and Registered Social Landlords, ODPM, November 2005*

Section 3 – Finding solutions to fund repairs and adaptations

3.1 The likely cost of different funding options

It is possible to rank possible options by the likely cost to the client, with cheapest at the top and most expensive at the bottom:

Non-repayable grant
Charitable funding
Repayable grant (0% interest)
Interest-only mortgage (with interest part paid by DWP) for essential repairs
Subsidised loan
Own savings/relatives' savings
Downsizing (though there may be large associated costs with moving)
Re-mortgage
Commercial loan
Equity share loan*
Home reversion plan

*in times of high house price inflation and if no interest cap is in place, then the costs associated with this product can amount to a high effective APR. Please see page 18 for full details.

The ranking of different funding options shows that for vulnerable homeowners on a low income, loans and equity release can be unaffordable or represent poor value. This section presents brief details of a range of alternative funding options which should be considered in the first instance. In many cases, several sources of funding are necessary and there are case studies illustrating this approach on the following pages, showing how a mix of grant, charitable and loan products can be used together as a tailored solution to meet clients' needs. Details of any loan products mentioned within the case studies are given in later sections of the report.

3.2 Local authority assistance

Housing

Every local authority must have a published policy on the range of assistance it has available to repair and improve the quality of the private housing stock. This should detail:

- the types of grants, loans and advice available
- eligibility criteria for applicants
- how to make an enquiry and application
- terms and conditions of any assistance
- target timescales
- any advice or support available in making an application.

Many authorities will offer non-repayable grants or loans as a last resort if the work is urgent, low in cost and the client is unable to access help elsewhere.

Disabled Facilities Grants

Disabled Facilities Grants (DFGs) are available to provide facilities and adaptations to help disabled people to live independently and in as much comfort as possible. The provisions of mandatory DFGs are set out in the Housing Grants, Construction and Regeneration Act 1996 which was amended by the RRO 2002. Recent changes (April 2008) to the rules governing DFGs will open up more assistance to help the occupant to move to alternative accommodation or have a greater say in how the money is spent.

Adult Social Care

In England, The Community Care (Delayed Discharges) Act (Qualifying services) (England) Regulations 2003 requires Social Services to provide free of charge, any community care service the individual is eligible for. This includes the cost of buying and fitting all minor adaptations costing £1,000 or less.

Case Study – Combining local authority grant and equity release loan

Rochdale Home Improvement Agency

Mr B was living with his son, daughter-in-law, granddaughter and two grandsons in a terraced house with three bedrooms (two of which were single). He approached the HIA for help to relieve the overcrowding. The council's overcrowding policy provides grant assistance for the construction of additional bedrooms and is called Dormer Grant Assistance. The total cost of the proposed works to add additional bedrooms in the roof space, including fees, was £18,597. Mr B had a small mortgage and no other loan secured on the property, which meant there was £77,000 free equity in the property. A means test (similar to that carried out for DFGs) resulted in a grant award of £12,000 – the maximum if there is more than £20,000 equity in a property. As Mr B was unable to obtain a loan from a high-street lender he decided to proceed with an equity release loan to assist him with his £6,597.08 contribution towards the works. This assistance was provided by the HIA by combining two strands of funding – grant monies and the local authority's subsidised Home Improve Equity Release Loan, which requires no repayments until the disposal of the property.

3.3 The Warm Front Scheme

Warm Front Grants are for help towards improvements in insulation, room heating and water heating and include installation of heating systems. Grants can be made of up to £2,700 (£4,000 if oil central heating is involved). In some cases the cost of work will exceed the grant available and in these cases funding for the shortfall must be found before the works can go ahead. There may be a waiting list for certain types of works and grants are only available for a set package of works.

The eaga partnership manages the scheme throughout England. Full details, including eligibility criteria, are available on their website (www.eaga.co.uk).

3.4 Department for Work and Pensions

Social Fund

The Social Fund provides discretionary Community Care Grants and Social Fund Loans (Budgeting and Crisis).

The purpose of Community Care Grants is to help the applicant (or a family member) to re-establish themselves in the community following a stay in institutional care, to remain in the community, or to ease exceptional pressures. Community Care Grants can be awarded for minor structural repairs, maintenance, internal decoration and refurbishment, and removal expenses connected to moving to temporary accommodation while works are carried out.

Social Fund Budgeting Loans are available for expenses such as improvement, maintenance, decoration and security of the home. Social Fund Crisis Loans can give immediate help with day-to-day living costs or the costs of other emergencies.

To be eligible, the applicant must have been in receipt of Income Support, Pension Credit or Income Based Jobseeker's Allowance throughout the 26 weeks before the decision, and not have above £500 (£1,000 for a couple over 60) in savings. Social Fund Loans are interest-free and repayment is deducted direct from benefits. Funding is very limited and only certain works qualify.

Help with mortgage interest

Interest on loans for some repairs, improvements and adaptations is treated as an eligible housing cost for people entitled to Income Support, Pension Credit Guarantee or Income Based Jobseeker's Allowance. Qualifying work includes:

- adaptations
- installation of toileting and bathing facilities
- damp proofing
- provision of ventilation and natural lighting
- provision of electric lighting and sockets
- repairs to existing heating systems
- drainage
- repairs to unsafe structural defects
- facilities for food preparation and cooking
- storage facilities for fuel or refuse.

If the client has to take out a lifetime mortgage (see Section 4.2) to fund the work and is entitled to one of the above benefits, it may be possible to claim help with interest payments. Until recently this scheme was called Income Support for Mortgage Interest (ISMI) but is now known as Income Support Housing Costs, Pension Credit Guarantee Housing Costs, or Income Based Jobseeker's Allowance Housing Costs. See Appendix 1 – Income Support for Mortgage Interest (ISMI), which explains the process and eligible works in more detail. It is important to bear in mind that the amount paid under this scheme sometimes does not cover the full costs of the interest payments due, as the scheme pays out based on an "indicative" interest rate rather than the actual rate being charged to the client.

3.5 Savings

If a client has savings, they could be used if there are no other sources of funding, but in such cases it is crucial to weigh up other options which might not place such a burden on the client's finances, such as moving to more appropriate accommodation.

3.6 Borrowing from family

Some family members might be able and willing to provide some of the necessary funding especially if they stand to recoup this through inheritance.

3.7 Moving home/downsizing

A move to a less expensive, smaller property or sheltered accommodation might be considered, particularly if major works are required and the home is generally not well suited to the needs of the client. This could both reduce costs and release a lump sum of housing equity.

3.8 Trusts and charities

Trusts and charities based locally and nationally often give funding to individuals with specific needs. There are a number of charity directories available, including computer packages that identify possible sources of funding. It is not usual for charities to give grants to replace statutory funding, but many will make small grants towards minor repairs in cases of real hardship. The advantage of obtaining charitable funding is clear – the client has the work done at no cost. However, obtaining charitable funding can be very time-consuming for agencies, and the client may not want to be seen as a 'charity case'.

The more a HIA can learn about the client, the more likely it will be to identify a source of funding. It is useful to find out:

- where they and/or their spouse worked
- whether they were ever in the armed forces or members of a trade union
- their religion
- information about any illnesses or disabilities.

There are a number of directories available which list charities by area, disability, occupation etc. An easy-to-use directory is 'Grants for Individuals in Need' published by the Directory of Social Change.

A list of local charities and trusts that operate locally should be available at the library, Citizens Advice Bureau or Council for Voluntary Services. Local networking can also result in knowledge of charities and trusts specific to a local area. Addresses and websites:

- www.turn2us.org.uk
- www.dsc.org.uk – Grants for Individuals in Need
- Charity Search, Dept WP, 25 Portview Road, Avonmouth, Bristol BS11 9LD
  Tel: 0117 982 4060 (may be able to help find the right source of funds for a particular client)
- www.funderfinder.org.uk – sells a CD of likely grant providers
- Directory of Grant Making Trusts – available from local library
- www.grantsforindividuals.org.uk
- www.guide-information.org.uk/guidelist.aspx?recid=G12590
- www.joblinks.org.uk
- www.guidestar.org.uk
- www.aco.uk.net – The Association of Charity Officers

Case Study – Funding from a variety of non-loan sources

Bristol Care & Repair

Mrs C, aged 73, initially contacted Bristol Care & Repair about a minor roof repair. A caseworker carried out an assessment and arranged for the repair to be carried out with a grant from the Royal British Legion. A number of electrical defects were also noted and ultimately a complete rewire of the property was recommended. A technical officer inspected Mrs C's home in order to provide a hazard rating and a Decent Homes Standard assessment, which can be used to support a loan or Minor Works Assistance grant application to Bristol City Council. The loan scheme referral application was submitted to Bristol City Council and they referred Mrs C to Wessex Reinvestment Trust. The client had a further means test from Wessex and was offered a low-interest loan which she declined as she did not wish to have any debt. Bristol City Council was unwilling to offer a grant as a loan had been offered and turned down. The client was still living in a property that was hazardous and failed the Decent Homes Standard.

The Royal British Legion was approached for a second grant and they offered to fund half the cost of the rewire. This was discussed with the client, who self-funded the remainder with a mixture of her savings and a contribution from her family. A grant from Bristol Care & Repair's hardship fund was awarded to make up the balance. The total cost of the works (excluding the roof repair) was £2,679 and the funding was made up as follows:

Royal British Legion	£1,340
Client	£ 500
Client's family	£ 500
BC&R hardship fund	£ 339

3.9 Hardship funds

Foundations Independent Living Trust (FILT) raises money for clients of HIAs. Currently, only those HIAs which are registered as referrers to the trust can submit funding applications. Some HIAs have set up their own hardship funds, which can save a great deal of staff time in making individual applications elsewhere. Local and national trusts and large companies have contributed to HIA hardship funds in the past. Time and thought need to be put into the applications and approvals process. Administration of the fund must, of course, be carefully addressed in order to combine usefulness and flexibility with accountability.

Section 4 – Different types of loan products

4.1 Introduction

Equity is simply the value remaining in a property once any existing loans secured against it are repaid. Other than moving house, there are two main ways to release equity from a property:

- Mortgage it by taking out a lifetime mortgage from a lender
- Sell the home, or part of it, to a lender – home reversion scheme.

4.2 Lifetime mortgages

These are loans that are secured on the property, which in most cases will not be repaid until the property has been sold when the borrower moves home or dies. The following are the five most common types of lifetime mortgage:

4.2.1 Interest-only mortgages

With this product, the borrower makes no repayments of capital until they die or the property against which the loan is secured is sold. Regular monthly payments are made to cover the interest (which may be either at a fixed or a variable rate) on the loan.

Advantages:

- A lump sum is received which can be used for a variety of purposes
- If the borrower is in receipt of certain benefits, they may be entitled to help from the DWP in meeting their interest payments
- Only interest is paid, therefore monthly payments are lower than the normal capital and interest repayment mortgages
- The borrower still owns the property and will benefit in full from increases in its value.

Disadvantages:

- If one partner dies, or other circumstances change, income may reduce and make it impossible to keep up the repayments
- Interest rates can increase so the final total cost of the loan cannot be predicted
- Need enough monthly surplus income to maintain monthly payments for the life of the loan.

Conclusion: Older people on low incomes would find difficulty in meeting the interest repayments – unless the loan is taken out in order to pay for essential repairs and the client is eligible for Income Support for Mortgage Interest (ISMI).

4.2.2 Roll-up interest mortgages

These are mortgages with no repayments until the borrower dies or the property is sold. Interest is added to the amount borrowed on a monthly or yearly basis, and this is ‘rolled up’ over the life of the loan. A roll-up mortgage which has a drawdown facility in place may offer better value. Instead of taking the total amount borrowed as a lump sum, smaller amounts are drawn down as needed. As interest is only charged on the total amount drawn down, the total amount owed grows more slowly.

Advantages:

- No payments are made during borrower's lifetime
- The borrower retains full title to the property.

Disadvantages:

- Debt can accumulate rapidly, doubling every 7-10 years depending on interest rates
- The younger the borrower, the greater the potential debt
- It will reduce the value of the estate – heirs will receive a reduced amount
- The borrower may end up in negative equity if the loan lasts a long time unless the lender places a maximum limit on capital and interest to be repaid (or there is a 'no negative equity clause' in the loan agreement).

Conclusion: This product is generally considered only to be suitable for people over 75 and may be poor value as a small loan due to sizable set-up costs.

Example of how costs mount up with a roll-up interest mortgage:

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

4.2.3 Fixed-repayment lifetime mortgages

With this type of loan an advance is made against the value of the property and the amount to be repaid is based on the life expectancy of the borrower at the time the loan is taken out. A fixed amount (loan plus interest) is repaid regardless of the length of the loan. If the borrower dies before reaching the average life expectancy, they will repay more than if they had taken out a roll-up interest mortgage. If they live longer than the average life expectancy, they will repay less than for a roll-up interest mortgage.

Advantages:

- No payments are made during borrower's lifetime
- Borrower retains full title to the property
- Borrower knows full cost of the loan and interest before signing up.

Disadvantages:

- Costly if the borrower dies before average life expectancy
- Reduces value of estate.

Conclusion: Can be an expensive product, only suitable where client needs absolute certainty of the total cost of the loan and no cheaper alternatives are available.

4.2.4 Equity share loans

In this case, a loan is offered with no or reduced interest charges in exchange for the homeowner agreeing to the lender taking a share in any increase in the value of the property during the life of the loan. When the borrower dies, or the house is sold, the lender is repaid the capital sum plus an agreed percentage of any property value increase. This loan is available only as a publicly subsidised product and has been taken up in some volume, as discussed in Section 5.

Advantages:

- No monthly payments are made
- Borrower retains full title to the property
- Borrower gives up a known percentage of the value of the property, which cannot change
- The terms of this loan are very simple to grasp and can be good value if house prices are stable or an interest cap is in place.

Disadvantages:

- Amount to be repaid is not known as it depends on the movement of house prices
- It can prove to be expensive compared to a normal interest bearing loan, especially in a period of rapid house price growth, unless a cap is put on which limits the amount of interest charged
- Reduces value of estate and can make it difficult to buy a similar property due to diminished equity
- Product not usually transferable to another property

Conclusion: This loan can offer less value for money than an interest-bearing loan if house prices increase faster than interest rates, however it is increasingly popular because it is easy to understand and no interest is repayable.

4.2.5 Home income plans

These secured loans provide a cash lump sum that is used to buy an annuity that provides a monthly income, usually a fixed amount for life. Part of the income is used to pay the interest on the mortgage and the remaining amount can be used as the borrower wishes. The capital is repaid when the home is eventually sold. The amount of income is usually fairly low and these schemes are usually restricted to people over 70 when income returns make them worthwhile after making interest payments. The older the person when they buy an annuity, the higher the income, because there are fewer years over which the income will need to be paid.

Advantages:

- Provided a fixed rate is chosen, the borrower has a guaranteed income for life
- The borrower retains ownership of the property.

Disadvantages:

- Income does not keep up with inflation
- More income could invariably be gained from other mortgage products
- Reduces value of the estate
- Extra income will affect means-tested benefit entitlements.

Conclusion: Not suitable for someone looking for funds to simply repair their property.

Fact File: Loan set-up costs

As well as the actual cost of servicing any loan, consideration must be given to the set-up costs associated with any loan. Many subsidised loans will cover some or all of these initial costs:

- Completion, arrangement or application fees (£300-600)
- Valuation fees (£200-300)
- Legal costs (£300-600)
- Building insurance required by the provider of the scheme (£200-300)
- Early repayment charges
- Mortgage intermediary's arrangement fee (can be as much as 1.5% of the amount borrowed)
- The cost of assisting with building works associated with the loan, typically 10% of the cost of the works.

The total cost of lifetime mortgage charges can be between £1,000 and £1,500 and could even be higher for major works.

4.3 Selling all or part of the home – home reversion schemes

With a home reversion scheme, the homeowner sells all, or part, of their property to an investor for an agreed amount. The sale proceeds could be received as a lump sum, invested to give a regular income or be a mixture of both. The homeowner retains the right to continue living in the property as a leaseholder, rent free – or with a 'peppercorn' rent, for their lifetime. The purchase price paid for the whole or share of the property is less than full market value (typically 35%-60%) to reflect the continued right of occupancy. The ex-homeowner continues to be responsible for maintaining the property.

Advantages:

- Schemes offering a lump sum can provide a large amount of money
- No payments during the persons lifetime
- If only part of the property is sold, the owner continues to benefit from any rise in property value, which can be left to heirs
- The schemes are transferable to another property
- Popular with people who are not in receipt of means-tested benefits, looking to increase their weekly income.

Disadvantages:

- If all of the house is sold, there is no benefit from any rise in property value
- Reduces value of the estate
- Once signed, the arrangement cannot be reversed or bought out
- May affect benefit entitlement
- Borrower continues to be responsible for repairs and maintenance
- High losses to estate if borrower dies or moves into care shortly after taking out a home reversion plan.

Conclusion: Not suitable if raising money solely for repairs as it can be very expensive. Ownership of the home ends or is reduced but the liability to maintain it stays with the occupier.

4.4 Unsecured loans

There are numerous commercial unsecured loans available with a variety of rates and conditions attached. Regular repayments of capital and interest have to be made over the term of the loan. These loans are not usually appropriate or affordable for older people and vulnerable households on low incomes.

4.5 Re-mortgaging

It is possible for people of all ages to re-mortgage their homes thereby releasing equity capital. The new loan can be added to any outstanding mortgage and extra capital and interest will be repaid on a monthly basis over a fixed term. Even though there are usually savings on set up costs by using this method, older people and low-income households would often not be able to afford the costs of the repayments.

4.6 Charitable loans

Some charities now offer loans for property repairs. These can be a useful source of help for eligible clients. For example, the Royal British Legion offers property repair loans (some of which are secured by a first mortgage charge on the land) to eligible people who have connections with the armed services. Loans are up to a maximum of £10,000 and are at 0% interest. The Royal British Legion does not need to comply with the FSA's regulated mortgage rules because they are not carrying on a regulated activity 'by way of business'. They are providing a service without expecting reward or payment of any kind.

Section 5 – HIAs working with loan products

5.1 Availability of different loan products for HIA clients

The Foundation's survey of HIAs carried out in March 2008 asked for information about the different types of loan products available in HIAs' areas of operation. Out of 114 respondents, 89 confirmed that some form of loan was available, and the results for different loan types are shown in Figure 1. By far the most common type was the interest-free loan offered by the local authority – this is available in 69% of areas where loans are being offered. 34% of these areas reported that subsidised loans were available – either as interest-bearing loans with interest rates below bank rates or as a form of equity share loan. Ten percent of these areas had clients taking up loans at a commercial rate.

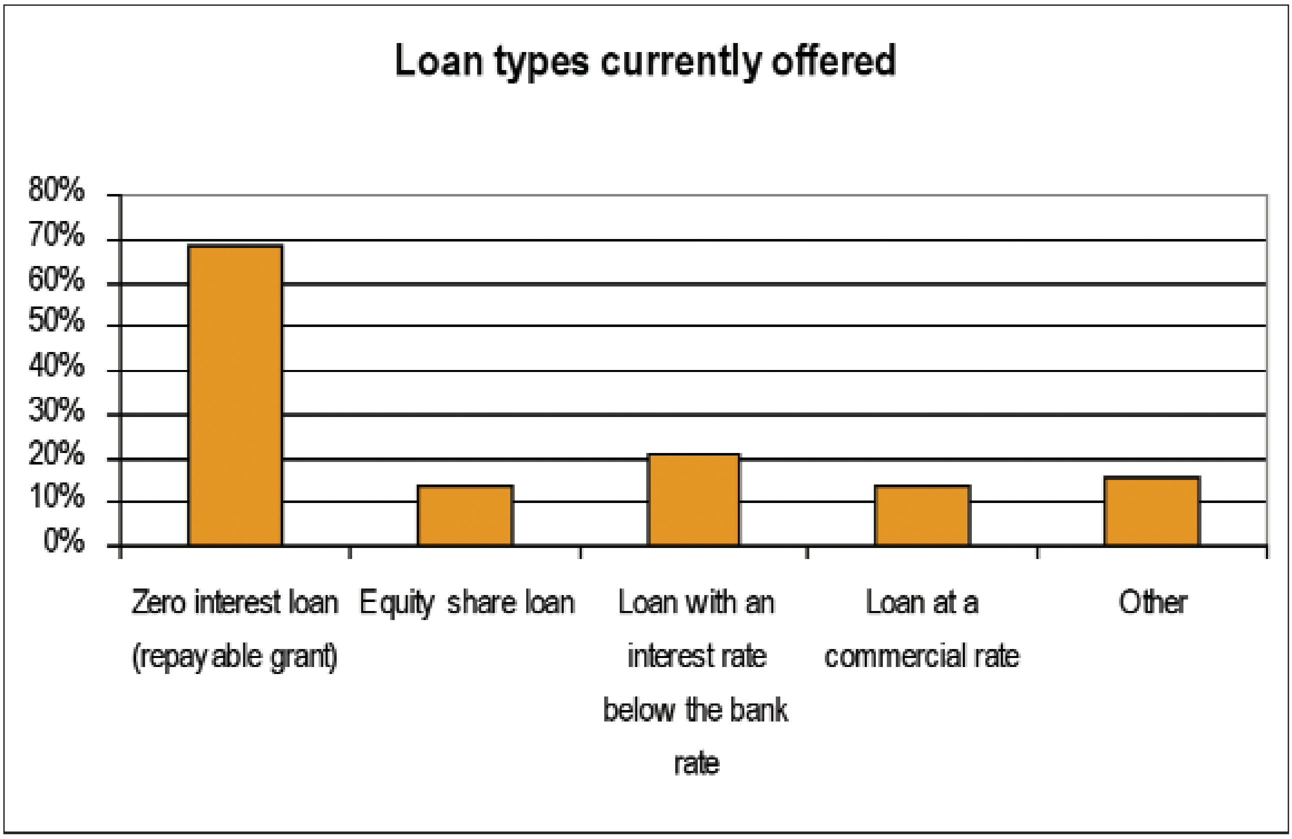

Figure 1

5.2 Interest-free loans (repayable grants)

However, the most widely available loan arrangement is an interest-free loan offered by the local authority. There are a number of differences between these products:

- Some involve charges for setting up and administration while others do not
- Others are offered in conjunction with grants where either grant or loan is the default funding vehicle, and the other is used to top-up the first when a maximum amount is exceeded
- There are separate types of interest-free loan schemes provided to help fund particular areas of housing disrepair, improvements or adaptations.

An example of interest-free loans – Manchester City Council

Both of the Home Improvement Agencies in Manchester (Care & Repair and Anchor Staying Put) manage loan funds on behalf of Manchester City Council (MCC). MCC made funding available, having taken the view that lifetime mortgages for works under £5,000 were not cost-effective for vulnerable people. £250,000 has been lent out to date. There are two loans available:

1. The Home Energy Loan Plan (HELP) is available to owner-occupiers in Manchester for the provision of energy-saving measures. HELP loans are interest-free, up to £4,500 and can pay for:
   - new or top-up loft insulation
   - cavity wall insulation
   - draught proofing
   - hot water cylinder insulation
   - new or upgraded central heating system and controls
   - replacement central heating boiler
   - in some cases, replacement windows and doors.

The HIA ensures the work is properly done, with the fee for this service added to the loan.

2. Property Essential Renovation Loan (PERL):
   - Maximum £5,000, interest-free, unsecured
   - For over 60s or people on benefits
   - Credit check on applicants
   - HIA fee met by MCC
   - Repayable by standing order for up to five years.

The agencies manage the loan process from start to finish and MCC is responsible for credit checks and action in the case of default by the lender.

5.3 The Home Improvement Trust and Houseproud

The Home Improvement Trust (HIT) is a specialist not-for-profit organisation based in Nottingham, but operating nationally. The organisation arranges low-cost lifetime mortgages with commercial lenders specifically for home repairs for older homeowners and those with disabilities. The Dudley Building Society is the prime lender involved with HIT/Houseproud.

HIT works closely with HIAs and the local authorities, in some areas, in a partnership called *Houseproud*. HIAs not involved with *Houseproud* can still refer individual clients to the Home Improvement Trust.

HIT gives information on the products offered by HIT and other suitable options for the client within a FSA-compliant Key Facts Illustration. There is a No Repossession Guarantee and No Negative Equity Guarantee. HIT only uses lenders regulated by the FSA.

Loans are secured as a first charge on the property. The interest rates are variable and they offer:

- roll-up interest (normally only available to people over 60 years of age)
- interest only (useful if part-payment by DWP is available)
- repayment of capital and interest.

Loans are usually available from £3,000 up to 55% of the current value of the property (depending on the age of the homeowner), and a draw down facility is available to help keep interest charges down. Set-up costs can be added to the loan.

HIT has established a good working relationship with DWP which is used to establish if the required building works are eligible for entitlement to assistance before a client signs up for a loan. HIT loans are all charged at normal commercial rates of interest but HIT has a standardised and reduced rate for the set-up costs.

Website: http://www.improvementtrust.fsbusiness.co.uk/index.html

Case Study – Houseproud interest-only loan

Anchor Staying Put, Birmingham

Mrs. B, aged 75, owns a terraced house in Birmingham. The property needed:

- new windows and doors
- refurbishments to toilet
- bathroom and kitchen
- rewiring
- damp proofing
- re-flooring
- re-pointing
- rendering
- decorating.

The estimated cost of all works was £30,000.

A detailed analysis of her income and expenditure showed she had no savings but that she did have sufficient disposable income to consider a loan. The agency's caseworker was able to inform Mrs. B of her options within the city's Houseproud scheme. From these options and after discussions with an IFA, she chose a capital and interest repayment equity loan of £30,000 over a 15-year term.

The agency was also able to help Mrs. B to obtain Buildings Insurance as well as assistance with meeting her interest payments from the Pensions Service.

Tenders were invited from companies on the agency's list of preferred contractors and the successful contractor commenced work in May 2006.

5.4 West Midlands Kick Start Partnership

The West Midlands Kick Start Partnership is made up of seven local authorities (Birmingham City Council, Coventry City Council, Sandwell Metropolitan Borough Council, Dudley Metropolitan Borough Council, Stoke-on-Trent City Council, Walsall Metropolitan Borough Council and Wolverhampton City Council), working in a partnership with Black Country Housing Group and ART (Aston Reinvestment Trust) Homes Ltd who provide the loan products for the partnership.

The partnership was set up in 2004 with an allocation of £7 million funding from the West Midlands Regional Housing Board with the objective of developing loan products suitable to address the needs of homeowners living in poor housing conditions. Over the last three years the partnership has issued almost 300 loans, worth £3.86 million in total (96% of these were equity share loans).

West Midlands Kick Start works closely with HIAs based in the partnership authority areas (Black Country Housing, Orbit Housing and Staffordshire Housing Association). It has established good partnership working arrangements where the HIA does most of the preliminary work around options and the FSA-registered intermediaries ART Homes staff take over once the need for a loan is established.

They offer a range of loans to suit different circumstances:

- Equity share loan (called a Property Appreciation Loan (PAL)), only available to the over 60s – by far the most popular in their range of products. With the PAL, there are no regular repayments of capital or interest and the loan is expressed as a percentage of the property value prior to any works being undertaken. The amount is repaid when the house is sold or at the owner's request and uses the same percentage (but this time of the property value at the time of redemption). If the property has decreased in value, then only the original loan is repaid.
- Capital and interest repayment loan
- Interest-only loan
- Capital release loan (roll-up interest)
- Discounted equity share loan (normally only available in regeneration areas to assist people to move on)
- Unsecured loan
- Faith loan for applicable groups.

Because of the degree of public subsidy involved, access to these products is only possible via the local authorities who belong to Kick Start, which limits referrals to those who cannot access commercial products. The partnership has recently agreed a best practice model that embraces the standards and approaches adopted by HIAs.

West Midlands Kick Start: http://www.wmkickstart.co.uk/

ART Homes: http://www.mercian.org.uk/pages/art_homes/loan_products.aspx

Case Study – Property Appreciation Loan and Foundations Independent Living Trust

Black Country Care & Repair

The client was referred for assistance by the housing department of the local authority. The caseworker visited and established that there was no heating or electricity. The client wanted a kitchen/bathroom refurbishment and some guttering works. It was also established that he had Parkinson's disease and an alcohol problem and was not getting any disability benefits.

He was referred to Warm Front for central heating and ART Homes for a loan for the other works. The technical officer completed a Decent Homes survey which determined that the property did not meet the standard. He requested estimates for the electrics and other works from approved contractors on the HIA's contractors list. The caseworker applied immediately to Foundations Independent Living Trust (FILT) for funding to get the electrical wiring sorted out. A grant of £2,256 was approved based on the estimate supplied by the HIA. The caseworker went back to see the client to apply for Attendance Allowance. This was awarded at the higher rate of £64.50 per week.

The client ended up having a total rewire paid for through FILT, then central heating fitted through Warm Front; finally, once the Property Appreciation Loan (PAL) for £11,000 was approved, he had the other works carried out and because there was some money left over from the loan he decided to have a new front door for security.

5.5 Wessex Reinvestment Trust

Wessex Reinvestment Trust (WRT) was set up to help people in the south-west region to access financial help to develop community assets. It was set up as a Community Land Trust and was the first rural Community Development Finance Institution (CDFI).

The participating local authorities are: Bath and North East Somerset, North Devon, Bristol, South Gloucestershire, North Somerset, all five Somerset District Councils and West Dorset District Council. Access to loan products is via the participating authorities who are free to determine the eligibility criteria for loan applicants to reflect their own local strategic objectives and available funding.

The loans offered:

- A capital and interest repayment loan. Interest is charged to the client at a fixed, subsidised rate of 3%. Repayments are made monthly by standing order. Loans are secured by a Title Restriction. Minimum loan – £1,000. Maximum Loan – £15,000. No arrangement fee
- An interest-only loan. The capital plus interest fixed at 3% is repaid upon sale of the property. Only available to clients aged 65 or over (minimum and maximum amounts are the same as for capital and interest repayment loans and the same security is taken)
- A roll-up interest loan, with capital and compounded interest repaid when the property is sold. Only available to clients aged 71 or over.

Activity to date – headline figures as at February 2008

Number of loans drawn down	193
Value of loans drawn down	£1,002,530
Average loan	£5,194
Current applications	76
Current loans agreed	25

Examples of HIAs working with Wessex are to be found in Bristol (where 38% of the Wessex loans have been made) and Mendip Care and Repair.

Website: http://www.wessexrt.co.uk/homeimp.html

Case Study – Wessex Loan

Bristol Care & Repair

Mrs W was a frail 76-year-old lady with mental-health problems. She was referred to the agency because her external doors and windows were in such disrepair they were in danger of falling out and because she had inadequate heating. Mrs W was initially reluctant to accept help and showed some signs of confusion. The agency worked closely with Mrs W and her social worker to gain her trust and agreement for work to be carried out. The Public Guardianship Office had Power of Attorney for looking after Mrs W's financial affairs and the agency liaised with them over the financing of the work.

An application was made for a Warm Front Grant for the installation of gas central heating. Our caseworker acted as the point of contact for Warm Front and was present at all meetings. The agency then assisted with an application for a Wessex loan to carry out repairs to the structural sub-frame of the property, for replacement doors and windows and some minor electrical works.

5.6 Regenda Loans

The Regenda equity share loan was first developed in 2001 when West Pennine Housing Association started developing a scheme alongside Oldham and Rochdale Housing Market Renewal Pathfinder. The loans are for both relocation and home improvement purposes, and to date approximately 200 loans have been approved, with a total value of £3.4 million. Regenda's aim is to lend over £10 million by the end of 2008.

Terms of the equity share loan:

- Only available to those judged to be in financial need
- To pay for works to the property in line with partnering local authority policies
- Maximum loan is 80% of the free equity in the property (based on the improved value of the property, including the equity-release loan)
- The repayable amount is capped at the loaned amount plus interest at 6.5% APR
- Set-up costs associated with the loan amount to £800, which are paid for by the council or added to the loan
- The loans are secured by a legal charge registered as a percentage of the property value, in the name of Maritime HA or West Pennine HA, with no repayments until the property changes ownership or client chooses to repay.

Website: http://www.regendaloans.org.uk/index.html

5.7 South Coast Moneyline

South Coast Moneyline operates a Southern Home Loan Partnership with five south coast local authorities:

- Brighton & Hove District Council
- Portsmouth City Council
- Eastleigh Borough Council
- Chichester District Council
- Gosport Borough Council.

The service is similar to the Wessex Reinvestment Trust approach. Repayment mortgages over 1-15 years and interest-only mortgages for people 70+ are offered at a 5% capped interest rate up to a maximum of £20,000. The actual rate charged is 9% but the local authorities subsidise the loan at an effective 4% rate of interest. Loans are given to make homes decent, with 75% capital from the local authority and 25% from South Coast Moneyline.

Website: http://www.scmoneyline.org.uk/home-improvement-loan-information

Section 6 – Conclusions

6.1 The changing provision of grants and loans

The research carried out to inform this report indicates that the market in loan products to assist vulnerable homeowners to undertake repairs, adaptations and improvements is still in its infancy. While certain products have taken hold in some areas, the overall take-up is low and there are still many areas of the country where little or no loan activity has taken place.

Unsurprisingly, interest-free loans have become the most widespread and the most popular with vulnerable clients. In time the use of this form of funding may end assumptions about continuing grant availability which have become ingrained within many HIAs and their local authority partners. Conversely, there appears to be a growing acceptance that for low-cost works, say under £3,000, set-up costs of loans are too high and as a result most authorities are still making grants available on a limited basis to cover such cases. However, it is also the case that a 'loans first' policy is being adopted in many areas, whereby the natural presumption will be towards ensuring that when and if possible, the client will be expected to first consider funding major works through a commercial loan and only be considered for a grant or subsidised loan product if there is a good reason for their being unable to take up a commercial loan.

6.2 How HIAs can respond to the new environment

Against an increasingly diverse background of funding possibilities, HIAs need to develop an awareness of the overall financial context in which the client operates. Factors the HIA caseworker will need to explore during client assessment include:

- the value of the house
- the level of free equity
- the presence of joint owners
- the condition of the home
- the importance to the client of various works which may be required
- the amount of support available from their family
- the possibility of claiming additional benefits or allowances to enhance weekly income
- the desirability of moving on or staircasing out of home ownership (a number of shared-ownership retirement schemes are increasingly offering this kind of option).

In order to provide a comprehensive service to clients which covers all their options, HIA caseworkers need to develop a sound basic knowledge of the appropriateness of the various loan products which may be available. This requirement sits alongside the need for HIA caseworkers to have a good understanding of welfare benefits and income maximisation techniques. Currently, the ability to deliver this breadth of service within the HIA is not always present, but it should be a minimum requirement of future HIA services. Training existing staff and further capacity building, possibly through the recruitment of suitably qualified and experienced staff, is needed to ensure that HIAs are confident about giving their clients this kind of information.

The need for independent, expert advice which sits outside the HIA has also been clearly established. Ideally, HIAs should be able to refer clients to a reputable IFA in the same way as they would recommend a reliable contractor. It may be possible for several HIAs to pool their IFA requirements in order to negotiate a reduced rate for this service. The possibility of obtaining a subsidy from the local authority for such services should also be explored.

HIAs can protect themselves from charges of mis-selling by being clear that their role is to support clients rather than advise them. Working in a partnership arrangement to deliver a loan scheme, as described in several of this report's case studies, can be beneficial to agencies because there are clear roles established and the responsibility for giving expert advice on or recommending a particular product clearly lies elsewhere.

HIAs will seek to limit their activities around loan products to giving information and support only, although the support-giving role may be very resource-intensive and in such cases there has to be a fee mechanism in place which recognises the contribution made by HIA staff. In some cases this might be a fee charged by the agency on a per-case basis, whereas in others an amount might be paid in advance as a percentage of the target value of loan approvals.

6.3 Next steps

Regional loan providers are recognising the value of HIAs being involved in the delivery of loans, and they will need to fund HIAs to provide this support role. There must also be a clear separation of duties and a commitment to maintaining public confidence that HIAs cannot and will not act in any way as agents to promote particular loan products.

HIAs are currently under-resourced to carry out the support role for clients who are looking at loan options. As a follow up to the publication of this report and accompanying seminars, the sector's National Body will investigate best practice models for funding the HIA support role, as well as seeking investment in a national training programme for HIA staff to increase levels of knowledge and competency in this area.

References and Useful Publications

Age Concern. Factsheet 12 (May 2007) "Raising income or capital from your home"
Age Concern. Factsheet 13 (July 2007) "Older home owners: financial help with repairs and adaptations"
Age Concern Factsheet 49, (April 07), The Social Fund and other Sources of Financial Help
http://www.ageconcern.org.uk/AgeConcern/factsheets.asp

Building Confidence in the equity release market
http://www.cml.ork.uk/cml/publications/research

Council for Mortgage Lenders:
Equity Release leaflet – unlocking the value of your home
http://www.cml.org.uk/cml/consumers/guides/equityrelease

eaga partnership: www.eaga.co.uk

Financial Services Authority. FSA Factsheet (June 07) "Raising money from your home",
http://www.moneymadeclear.fsa.gov.uk/pdfs/equity_release_ink.pdf

Loan Finance to improve housing conditions for vulnerable owner occupiers, CLG, April 2007

Equity Release Report 2005 Volume 1, The Actuarial Profession, 2005, Main Report

Appendix 1 – Income Support for Mortgage Interest (ISMI)

Excerpt from Circular No: 1780, dated 5th February 2003, issued by the Council of Mortgage Lenders

Income Support for Mortgage Interest: Home Improvement Loans

Introduction

1. This circular provides guidance on applications for home improvement loans by borrowers who are already in receipt of state benefits. The usual scenario is that the lender cannot make the loan offer until the lender is satisfied the loan would be eligible for Income Support for Mortgage Interest (ISMI). However, the Department of Work and Pensions (DWP) cannot confirm that the loan would be eligible for ISMI, until the loan has actually been granted by the lender. A "catch-22" situation arises.

2. This circular sets out what information the DWP can provide to assist both lenders and borrowers with home improvement loan applications.

DWP letters

3. The DWP have two letters which they use in connection with queries on whether a loan might be eligible for ISMI.

(a) Enquiry from the customer

Where a customer enquires if a loan would be eligible for ISMI, the letter DLIS 170 would be issued. [...] The letter makes it clear that, while the DWP can only provide formal confirmation once the loan has actually been taken out, they are willing to provide an indication as to eligibility "based on the information" provided. The response will take one of three options –

(i) interest on the loan would be payable

(ii) interest on the loan would not be payable

(iii) only some of the interest on the loan would be eligible.

While this is not a "guarantee" that the loan interest would be payable via ISMI, it provides both lender and borrower with a strong indication of what the position would be if the loan is eventually made by the lender.

(b) Enquiry by the lender

DLIS 170 and 171 should be used by local DWP offices when dealing with queries about home improvement loans. Lenders can specifically refer DWP staff to the standard documentation when seeking a response.

4. Where the lender makes the enquiry, letter DLIS 171 is used. […] Again, the letter provides lenders with a useful indication of eligibility for ISMI if the loan is actually granted. It uses the same three option approach, namely the loan would be eligible, the loan would be ineligible or only part of the loan interest would be eligible for ISMI.

Wider implications for home improvements

5. On 19 July 2002, the Regulatory Reform (Housing Assistance) (England and Wales) Order 2002 came into force. This removes many of the detailed provisions that govern the way local authorities provide housing grants and replaces them with a broad power to provide financial and other assistance for home repair and improvement. While targeting those most in need, the Government also wants to encourage homeowners to make their own provision for repair and improvement, as well as facilitating the lending industry to develop further in this area. Local authorities are currently in the process of publishing their policies on home improvement, before their new powers finally come into use on 19 July 2003. Further details of the new regime are in Circular 1688.

6. In practice, this means that lenders could potentially see more home improvement loan applications from homeowners already in receipt of benefits. The DWP letters set out above should therefore assist lenders when considering these applications.

Home Improvement Loans and ISMI

7. Lenders will also be aware that as part of the changes to the payment of ISMI introduced in October 1995, the Government imposed some restrictions on the type of home improvement work which would be eligible for assistance. When considering whether a loan would be eligible for ISMI, the DWP will also look at the purpose of the loan and if it meets the criteria set out in the Income Support (General) Regulations (SI 1987 no. 1967). The DWP letters will confirm whether or not this is the case.

8. The repairs and improvements listed in the Regulations include any of the following work carried out with a view to maintaining the "fitness of the property for human habitation". Provision of:

(a) a fixed bath, shower, wash basin, sink or lavatory and necessary associated plumbing, including the provision of hot water not connected to a central heating system

(b) repairs to existing heating systems

(c) damp proof measures

(d) ventilation and natural lighting

(e) drainage facilities

(f) facilities for preparing and cooking food

(g) insulation of the dwelling occupied as the home

(h) electric lighting and sockets

(i) storage facilities for fuel or refuse

(j) repairs of unsafe structural defects

(k) adapting a dwelling for the special needs of a disabled person, or

(l) separate accommodation for children of different sexes aged 10 or over who are part of the same family as the claimant.

9. Where only part of a loan is for the purposes set out above, only that proportion would be eligible for ISMI.

Appendix 2 – How to find independent financial advice

Receiving printed information and spoken descriptions of products and services does not mean the customer is getting advice specific to their needs and circumstances. This is why it is not uncommon for organisations like Age Concern to recommend that customers should seek independent legal and financial advice.

All independent financial advisors (IFAs) are required to be registered with the Financial Services Authority (FSA). The FSA holds an online database of all financial services firms and individuals. It is important that any IFA is included on the FSA register, which can be searched at www.fsa.gov.uk/register.

There are various websites containing databases of independent financial advisors across the country. The best sites are:

- IFA Promotion website (www.unbiased.co.uk)
- SearchIFA.co.uk website (www.searchifa.co.uk).

The IFA Promotion website allows the user to undertake a search on postcodes.

To establish a list of appropriate IFAs involves finding out from those identified:

a) do they provide advice on equity release products? (verify from website details)

b) can they visit clients in the HIA area in their own homes to give advice?

c) do they have arrangements with any particular lenders (are they ‘tied’)?

d) do they charge fees or work on commission?

Obviously, the IFA must be able to meet a), b) – to be considered for inclusion on the list but the answers to c) and d) are more complex. An IFA who has an arrangement with a particular lender to promote their products would be felt less capable of providing an unbiased range of options to clients. Similarly, IFAs who charge a fee per client regardless of the outcome of their advice are more likely to offer impartial advice than IFAs who fund their activities partly or solely on a commission basis.

An additional factor to be taken into account is the size of the fee charged for advice. Fees can vary widely and also depend on other factors such as the volume of referrals which the HIA would make to the IFA. Some fee levels may be felt to be too high for HIA clients. It is therefore recommended that the agency discuss and negotiate fee levels with the IFAs before finalising any list. It should be noted that:

- few IFAs have experience of the equity release market
- IFAs don’t often tend to work with people on low incomes and therefore have little practical knowledge of the benefits system
- IFAs have little knowledge about issues connected with the Decent Homes Standard
- IFAs should be able to access the whole market but there are few appropriate products available commercially with loans of less than £10,000.

Appendix 3 – Regulations governing the selling of loan products

To sell lifetime mortgages, advisors must usually be authorised by the FSA or must be agents for authorised firms. Lenders must be authorised by FSA.

Firms selling lifetime mortgages must follow FSA rules designed to make sure that advertisements, product brochures and other promotions are clear, fair and not misleading. So:

- advantages and disadvantages must be equally clearly stated
- the annual percentage rate (APR) must be quoted whenever price information is given
- if there's any fee for advising on or arranging a lifetime mortgage, the actual or typical fee must be quoted.

Lenders or intermediaries must give potential customers a Key Facts Illustration (KFI):

- whenever they ask for one
- whenever they recommend a particular lifetime mortgage to them
- before they apply for a lifetime mortgage.

The KFI summarises important features of the lifetime mortgage and must be clear, fair and not misleading. It must be presented in a standard way, so the customer can easily check the costs and terms of the lifetime mortgage and compare it with similar lifetime mortgages.

The sales process

Advisors and lenders must ensure that their sales process and advice complies with the FSA's Mortgage Code of Business (MCOB) rules. There are six stages of the core lifetime mortgage sales process:

STAGE 1 – Gathering general information (customer name, address, age, property value, loan amount, purpose of loan, and state of health),

STAGE 2 – Clarify property and income details (type of property, occupancy, and income details),

STAGE 3 – Clarify purpose of loan (lump sum or monthly income),

STAGE 4 – Check alternative sources of funding (cheaper property; other funds; grants; benefits),

STAGE 5 – Assessment of risk and product factors relating to the customer's circumstances (attitude to house price inflation; maximum loan required; inheritance; view on interest rates; debt consolidation; affordability of interest payments; other factors important to customer),

STAGE 6 – Recommendation of most suitable course of action (recommend product; explain application process; recommend family involvement; assess the customer's circumstances; communication of recommendation: KFIs and other documentation).

Those advising on lifetime mortgages must consider whether the benefits to the customer of taking out equity release outweigh any adverse effect on the customer's entitlement (if any) to means-tested benefits, and on their tax position. This is a very specialist area. The Council of Mortgage Lenders (CML) has worked with Ferret Information Systems Ltd to develop a new tool – FINTAL – a new software solution to calculate the impact on tax and benefits of taking out different types of equity release.

Local authority and registered social landlord mortgage finance

Both local authorities (LAs) and registered social landlords (including Housing Associations (HAs)) offering mortgages have been exempted from the new FSA regulatory regime, but on the basis that a 'comparable' quality of service is provided to customers. Mortgages offered by a HA or LA, which are secured by a first charge over the property, are now required to follow the procedures set out in Mortgage Sales Guidance for Local Authorities and Registered Social Landlords published by the ODPM in November 2005.

The guidance includes robust customer protection requirements to ensure that the mortgages are only offered where they are best suited to the customer's needs.

If a mortgage will not be a first charge, then the administration of the mortgages will not need to comply with this guidance. The mortgage may need, however, to comply with the Consumer Credit Act 1974. Where this is the case, the HA or LA may want to obtain independent legal advice on the correct procedures to be adopted.

Prior to making a mortgage application:

- The customer must receive information about the service being offered by the HA or LA
- The HA or LA must take reasonable steps to ensure that the mortgage would be suitable for the customer, based on their individual needs and circumstances
- If the HA or LA makes a mortgage or equity mortgage offer, the customer must receive a Mortgage Offer Document (MOD) or Equity Mortgage Offer Document (EMOD). These documents include key information about the mortgage, to enable the customer to check the features and price of the mortgage before deciding whether to accept the offer
- During the term of the mortgage, customers must receive sufficient information to allow them to check any payments and charges that have been made and how much they continue to owe on the loan.

The guidance on the mortgage application process does not include an option for the customer to receive formal advice and a recommendation on which mortgage product best suits their situation. This approach has been adopted because the guidance does not incorporate a mandatory training requirement for mortgage advisers, as is currently the case under the FSA regime. Instead the guidance allows LA and HA staff to tell customers about the mortgage products they have available based on the customer's needs and circumstances and it would be the customer who would have to make the decision on how to proceed. Similarly, HIAs working in close partnerships with their LAs may become involved in providing information and guidance on LA or HA mortgage products and they must leave it to the client to decide how to proceed.

The guidance also states that where a customer requires additional assistance, it could be decided to refer them to an independent financial advisor.

Appendix 4 – Consumer Credit Act 1974

Extract from *"Do you need a credit licence? An introduction to consumer credit licensing"*

Published by the Office of Fair Trading, April 2008

Category C: Credit brokerage

Even if you do not offer credit yourself, you may want to introduce your customers to someone who will. If so, you are likely to need to apply for Category C.

Credit brokerage consists of introducing individuals (your customers) seeking credit or goods on hire to businesses that provide credit, or other credit brokers.

Please note:

A licence covering Category C is needed not only by those who are normally regarded as brokers, such as mortgage brokers, but also by retailers and those who introduce their customers or clients to sources of credit in order to sell their own goods or services.

This may be the case, for example, in a hire purchase transaction, such as a car purchase, or where a home improvement company recommends a particular credit provider. An introduction does not depend upon the broker forwarding the application to the lender. A recommendation to deal with a particular lender may amount to credit brokerage.

It is also credit brokerage to introduce people to other credit brokers.

It is not necessary to apply for Category C if you are simply going to accept credit cards issued by someone else to your customers before they come to you.

You will not need to apply for this category merely to advertise other people's credit or hire.

Since 31 October 2004, introducing people to lenders or other credit brokers for the purposes of obtaining a first charge mortgage has not generally constituted credit brokerage. In many cases, this activity is instead regulated by the Financial Services Authority (FSA).

If you apply for Category C you may need to submit a Credit Risk Profile as part of your application in order to assist the OFT's consideration of your fitness to be licensed and to enable it to make further decisions on the level of scrutiny which it will apply to your business if the licence is granted.

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