

# Mortgage brokers



## Equity release – lifetime mortgages and home reversion plans

### Is this factsheet for you?

- firms who advise on equity release; and
- firms considering expanding into giving equity release advice.

### It covers:

- qualifications needed to advise on equity release;
- permissions required to advise on and sell equity release;
- marketing;
- key regulatory requirements; and
- what equity release sales may look like in practice.

## Qualifications needed

You can continue to advise on lifetime mortgages if you met and continue to meet our grandfathering requirements on 31 October 2004 (though please note that SHIP members stopped accepting grandfathered business on 6 April 2008).

Otherwise you will need to hold the appropriate qualifications to meet our training and competence requirements.

The Financial Services Skills Council website has a list of appropriate examinations.  
[www.fssc.org.uk](http://www.fssc.org.uk)

### If you advise on home reversions

If you held a lifetime mortgage qualification before 6 April 2007 and wished to give advice on home reversions, you needed to pass a home reversion top-up qualification before 6 April 2009.

If you have not done this then you will need to pass the new full equity release qualifications or restrict advice to lifetime mortgages only.

If you did not hold a lifetime mortgage qualification before 6 April 2007, you need to pass the new full equity release qualification in order to provide advice on lifetime mortgages and home reversion plans.

If you are offering a non-advised sales process then the person designing the scripted questions needs to be qualified as above.

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## Permissions

### Lifetime mortgages

If you are **only** conducting lifetime mortgage business then you do not require any further permissions if you are already able to give advice on mortgages ('advising on regulated mortgage contracts').

### Home reversion plans and lifetime mortgages

If you are advising on both lifetime mortgages and home reversion plans you need additional permissions covering home reversions ('advising on a home reversion plan') as well as permission to advise on or arrange regulated mortgage contracts.

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## Marketing

You need to make sure that your promotions (for example, adverts in magazines or newspapers and product brochures) follow our financial promotion rules and are clear, fair and not misleading. In particular you must ensure:

- the advantages and disadvantages of particular features are equally stated;

- that with lifetime mortgages you quote the annual percentage rate (APR) whenever you provide any price information; and
- if there is the possibility of a fee for advising on or arranging the lifetime mortgage, you quote the actual or typical fee.

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## Key regulatory requirements

- You must give an equity release **initial disclosure document (IDD)** on first contact with a customer. The **fees section** in particular needs to explain the fees that you charge in a clear way that is not misleading to customers.
- You cannot combine standard mortgage or home purchase plan services with equity release services in a combined initial disclosure document (CIDD).
- The build your own IDD section of our website can help you design a compliant IDD:  
[www.fsa.gov.uk/smallfirms/your\\_firm\\_type/mortgage/disclosure/index.shtml](http://www.fsa.gov.uk/smallfirms/your_firm_type/mortgage/disclosure/index.shtml)
- You must **collate and assess** sufficient 'know your customer' information to support the recommendation you make and demonstrate why it is suitable for the customer. Keep this information on file.
- You should ensure that releasing **funds from equity release is the most suitable** way for the customer to raise the money they need, and you should also take into account whether a different type of equity release plan from the other market sector would be more suitable, for example, an adviser offering lifetime mortgages should take home reversion plans into account.
- If a customer requires money for essential repairs to the property, you should establish whether they could get this from a grant. You may have to refer the customer to an appropriate source, such as their local authority or Citizens Advice Bureau, before meeting the customer again to continue your assessment of their needs and circumstances.
- Using equity release to release funds may affect the customer's entitlement to **means-tested benefits** and could have an adverse effect on their **tax position**. You need to make sure the benefits of the equity release product outweigh any negative effects. If you do not have enough knowledge in these areas to establish this, then you need to refer the customer to an appropriate source such as the Pension Service, HM Revenue & Customs or Citizens Advice before continuing your assessment.
- If the equity release product you recommend requires regular payments to the provider, you need to assess whether these payments are **affordable** for the customer. Examples can include an interest-only lifetime mortgage, or a home reversion plan where the customer

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has to pay rent (this is usually a token amount, but some schemes can charge more in order to release more money from the sale).

- You must consider your **customer's preferences for their estate** before recommending an equity release product, as certain products will guarantee an inheritance and others will not. You need to consider whether the customer wishes to leave an inheritance and, if so, how much and to whom.
- You need to take your customer's **health and life expectancy** into account because this will affect how much equity the customer can release from their home. There are also products on the market that offer enhanced benefits for customers with health problems.
- You must consider your **customer's future plans** when selecting an appropriate product. For example, whether they will need to raise further funds, how likely it is they will want to move house in time, or, if they have yet to retire, what their future pension payments will be.
- If the purpose of the equity release is to consolidate debt, it is important that you sufficiently assess the customer's debt position and explain the implications of debt consolidation to them. In deciding whether equity release is suitable, you must take into account the costs of increasing the debt repayment period, whether it is appropriate for the customer to secure a previously unsecured loan and whether it would be better for them to try and negotiate an agreement with their creditors.
- When assessing whether a **home reversion plan** is appropriate to the needs, objectives and circumstances of the customer, one thing to consider is the **duration of the customer's right to occupy the property**.
- You should also take into account the protection the customer will lose if an unauthorised **reversion provider** is used rather than an FSA-authorised one.

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## What equity release sales may look like in practice

### Gathering 'know your customer' information

- You need to find out what the customer wants the money for and the amount they require. If the money is for several different things, you should establish the amount needed for each separate purpose and record this. Take the fees and charges into account and check that the amount required is realistic, not excessive or less than the minimum required.
- You should also ensure that you understand what action the customer is prepared to take to release the money. For example, are they willing to sell a share in their house in order to achieve their goals?
- One reason for finding out what the money is for is to ensure that you take into account suitable alternatives to equity release, such as a grant for repair work, or whether you need to consider debt consolidation. As part of this process you will need to establish when the money is needed as this will affect the type of product you recommend. For example, either a lump sum or a product with a drawdown facility to reduce the interest payments on a roll-up mortgage.
- To assist with gathering appropriate information, some firms use a fact-find tailored to equity release. This allows them to capture specific information relating to relevant areas, such as the customer's needs and preferences, benefit/tax position, preferences for their estate, health and life expectancy and future plans. You should avoid placing too much reliance on checklists, as these are not enough to show that you have discussed the important areas during the advice process.
- If a customer's circumstances change before they receive an offer, you should check the recommendation you made to make sure it is still suitable. For example, if the property is down-valued you should make sure the proposed transaction still releases sufficient funds to meet the customer's requirements.

### Sales process

- If the equity release sale takes place over several stages, it gives the customer the opportunity to think the transaction over, consider the risks and make enquiries with relevant organisations such as the Pension Service or Citizens Advice service.
- Although it is up to the customer to decide if they wish to discuss the equity release with their family, or bring family members along to the meetings with you, it is good practice for you to recommend they do and to record whether they do or not.
- Some firms carry out the meetings with other parties present such as the customer's own solicitor. If you need to go through the customer's tax position, you may wish to hold the meeting with the customer and their accountant.
- If you refer a customer to another organisation to check about a grant for repair work or what effect equity release would have on means-tested benefits

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you should wait until the customer receives a response before making your recommendation.

- It is good practice to demonstrate that as well as discussing benefits of the product with the customer, such as a 'no negative equity guarantee', you also discuss the inherent risks. Risks include the speed a lifetime mortgage debt will grow, the amount of equity that will have to be given up for a home reversion and the effect future falls in house prices could have on the amount of equity left in the property. These risks and benefits should also be covered in the key facts illustration you give to the customer. When selling a home reversion plan to a customer, you should ensure the customer is fully aware of all relevant terms and conditions, such as any clauses requiring them to maintain the property.

### Communication with customers

- Our rules do not require you to issue a suitability letter to a customer, but if you choose to do so it is important the letter is clear, fair and not mis-leading. You should tailor letters to the customer and explain why the recommended product is suitable for their specific needs and preferences. It should not include generic paragraphs that are not relevant to

them, such as a statement about local authority grants for a customer who is not undertaking home improvements.

### Future plans

- It is important that you take into account the customer's future plans, because a lifetime mortgage is a long-term solution that can be expensive to cancel or replace and home reversions can only be cancelled in very limited and expensive circumstances.
- Future plans are especially relevant for those in the lower age range of equity release customers, or those still in employment. You should also consider the customer's pension or income and expenditure if one person in a joint agreement dies. This is because if the customers are repaying interest and one person dies, the remaining customer may not be able to afford the repayments.
- Customers may need further funds in the future and this could affect the type of product you recommend. There are also interest savings for customers if they only draw the money they need immediately at first and the money they need less urgently at a later date.

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## Useful websites

FSA Moneydeclared™ guide to equity release and raising money from your home:

[www.moneydeclared.fsa.gov.uk/tools/publications/publications.html](http://www.moneydeclared.fsa.gov.uk/tools/publications/publications.html)

Safe Home Income Plans 'SHIP':

[www.ship-ltd.org/](http://www.ship-ltd.org/)

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