Equity Release Council

Adviser Guide to Equity Release

Created and sponsored by Pure Retirement

Brand values

The Council stands for a customer-led market with rigorous Standards and safeguards that members must adhere to. The Council is committed to working with members and the wider market to ensure all consumers benefit from good outcomes through being:

Authoritative:

At the vanguard of substantiated, credible, evidence-led market insights, knowledge and data.

Progressive:

The advocate of market change, innovation, improvement, inclusion and reform.

Incisive:

Having clarity of thought, committed decision-making and the rigour to deliver the right solution and outcome.

Trustworthy:

Inspiring confidence, reliability and transparency across all stakeholders.

Contents

The Adviser Guide to Equity Release is for guidance only. Advisers must always refer and adhere to the regulatory regime set out in the Financial Services and Markets Act 2000, and the FCA Handbook. Use of this guide does not alleviate any responsibility or obligation to follow the regulatory regime set out in statute and secondary legislation. For more information on regulatory standards, please contact the Financial Conduct Authority, or visit their website www.fca.org.uk The Equity Release Council will not be held responsible for regulatory breaches incurred by firms relying on this guide for FCA compliance purposes.

Welcome

Welcome to the second edition of the **Adviser Guide to Equity Release**

Donna Francis
Chief Operating Officer

It is by no means an understatement to say that the world has changed since the first edition of the Adviser Guide was published, almost four years ago.

The UK has left the European Union, following a period of stifling political uncertainty, and the pandemic brought with it unprecedented economic conditions.

But despite these challenges our market has held steady at about £3.9bn a year, which is a remarkable feat.

Property wealth will inevitably continue to play a role over the months and years to come, to help meet the wide-ranging needs of the UK's ageing population, come what may.

In addition, the increasing diversity of firms in the market reflects the wide range of consumer needs which property wealth is helping to address. It is also a sign of the greater frequency with which the option of releasing equity is coming up in retirement planning conversations.

Equity release is a long-term commitment that can only be made after careful consideration, regulated financial advice and independent legal advice.

Strong consumer safeguards will continue to ensure equity release is chosen for the right reasons, with applications vetted prudently and carefully by weighing up both short and long-term needs.

It is against this context that Equity Release Council presents the second edition of the Adviser Guide to Equity Release.

The first edition has been downloaded nearly 10,000 times since it was introduced in November 2017 and we hope that this edition will continue to provide guidance and support for advisers looking to work in this vibrant and growing sector.

This guide would not have been possible without Pure Retirement's commitment to creating and sponsoring the project. It is not a comprehensive 'how to' guide. However, it is designed to take you from an initial understanding of the market, and the opportunity it presents, through to submission of an application and beyond.

You will find information on market background, reasons to engage in this market, and what qualification routes are required to be able to advise on this product effectively. It is designed to give you a deeper understanding of the products, and the wider market, which will help you to become confident about engaging in this market, and in promoting the product's features and benefits to your clients.

But above all it is designed to support the high standards of advice and good consumer outcomes necessary to ensure the market continues to grow in a safe and sustainable way.

About the Equity Release Council

The Equity Release Council is the representative trade body for the equity release sector. The not-for-profit organisation was first established in 1991 when it was known as Safe Home Income Plans (SHIP). It acted as an 'independent voluntary regulator' prior to the regulation of the equity release market by the FCA, in 2004.

The Council seeks to lead a consumer-focused market by setting authoritative standards and protections that enable customers to trust that equity release is reliable and safe. In 2021 the Council celebrates 30 years of standards evolution.

Customers of Council member-firms receive three levels of protection, encompassing: a structured financial advice process; independent legal advice; and clear product safeguards which include secure tenure for life and a no negative equity guarantee. Combined with statutory FCA regulations this sets the highest standard of consumer protection for any property-based loan.

Council membership has seen significant growth in recent years and membership doubled over 2018 and 2019. In May 2021 there were more than 600 firms in membership and almost 1,500 registered individuals.

The Council uniquely represents the entire value chain, including funders, providers, advisers, lawyers, surveyors and other professionals. This makes the Council inclusive and gives it a 360-degree perspective, ensuring it is fully representative and always has a balanced view of the market.

Some of the household names within membership include Aviva, L&G, LV=, Nationwide, Scottish Widows, Saga and Canada Life.

Council members are eligible to display its endorsement. This recognisable and trusted logo demonstrates to consumers that the member-firm is committed to delivering the highest standards of conduct and practice in equity release provision.

The Council's endorsement logo

The voluntary safeguards and protections that Council members abide by go beyond statutory regulation and are designed to promote confidence in members' products and services.

The Council works with government, voluntary and public sectors as well as regulatory, consumer and professional bodies to inform and influence debate and set the right regulatory framework to support the use of property wealth in later life and retirement planning.

For further information about Council membership visit

www.equityreleasecouncil.com/join-us/

How to use this guide

The guide is designed to take you from an initial understanding of the market, and the opportunity it presents, through to submission of an application and beyond. This is not a comprehensive 'how to' guide, but it should prove a useful resource for those looking to work in the equity release sector.

The guide is split into four sections

1. Introduction to the equity release market.
2. Finding clients.
3. Establishing client needs.
4. Completing the advice process.

The Adviser Toolkit and Competency Framework

The adviser guide is just one of a growing number of resources provided by the Council.

Like this guide, the Council's competency framework is available to non-members. The framework provides an educational syllabus with three pathways based on advisers' levels of experience. It is designed to guide their development journey by benchmarking their knowledge and skills as well as signposting materials to support their progress.

Look out for the **competency framework icon** that signposts to the relevant sections.

Council members can also look out for the **adviser toolkit icon** which signposts to further resources in the members' lounge of the Council website.

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Equity Release Council

Section 1

Introduction to the equity release market

Contents

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Introducing equity release

Many of your clients aged 55 or over, who have retired or are about to retire, may be finding that their capital and retirement income isn't enough to allow them to live the life they want.

Unpaid mortgages/debts at retirement, and low interest rates offering savers limited returns are some of the factors affecting later-life income. In addition, while the situation is improving, older people can find it harder to get mainstream mortgages.

Rising life expectancy and longer retirements mean that there is increasing pressure on pension funds to supply the necessary income for your clients to enjoy life to the full throughout retirement.

Although most people will receive some state benefits, the concept of depending solely on these in retirement is now old-fashioned, and in some cases, defunct. According to the FCA's 2018/2019 retirement income market data, today's average pension fund is only £61,897, after a lifetime of saving. This is not enough to buy a sizeable annuity, and with pension freedoms some are choosing to take it all as cash reducing yet further the income they will have in later life. It is no wonder then that today's pensioners are looking to alternative sources to fund their retirement needs, whether it be immediately, or at some point in the future.

Alongside these clients who release equity to support their standard of living, there has also been an increase in the number of clients using equity release for more aspirational purposes. Here, it is less a matter of needing to release funds and more about wanting to. We'll look at these two groups in more detail in section two.

The growth in equity release use has been made possible partly by the growth in house prices. Over the last forty years, we have seen enormous growth in the property market, with homes now worth many times what was paid for them. The House of Lords described this as an 'unprecedented equity windfall' in the hands of the older generation, giving this generation access to significant property wealth that can radically improve the quality of their later lives.

In its simplest form, equity release is a way of releasing some of this money, or equity, stored up in your client's home, without them needing to move. The amount which can be released depends on the property value, the client's age, health, lifestyle and individual needs. There are two types of equity release products – a home reversion plan, where your client is required to sell their home in full or in part but retain the right to live there (either with or without rent due), or a lifetime mortgage, which is essentially an open-ended mortgage. We'll look at each of these in more detail, shortly.

It is worth noting that home reversion plans were the original form of equity release and used to be the primary product for equity release. As the market has evolved, home reversion plans have become less popular in recent years owing to the flexibility and enhanced loan to value rates of some lifetime mortgages and now represent less than 1% of the market. For the right client circumstances, however, they still represent the right solution.

The market at a glance

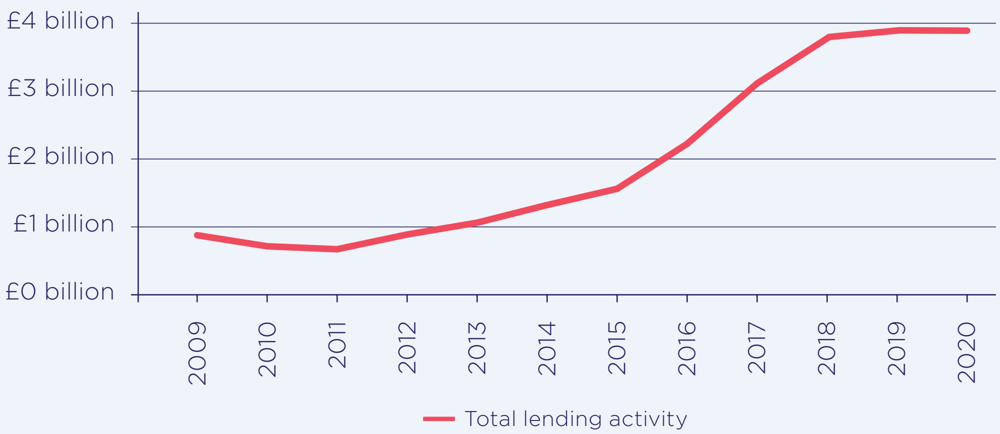
The latest Equity Release Market Report shows that, among the over-55s, appetite for unlocking their housing wealth remains strong across the UK. The retirement landscape has changed considerably after the arrival of the pension freedoms on 6th April 2015 and the introduction of the Care Act 2014. This is giving people new options to consider for funding later life, but at the same time, it remains a challenge to amass the savings needed to support a comfortable retirement.

Equity release can play an important role for many in helping to achieve this. It therefore makes sense for any conversation about financial planning for retirement to consider the role that housing wealth can play.

In addition, the sector has seen big names like Nationwide, Legal & General and Scottish Widows enter the equity release market. The prospect of more new providers and products entering the market - as well as different funding options helping providers to develop their product portfolios - will introduce further innovation. There are already examples of this, such as the option to make interest payments throughout the life of a loan, which will ensure the market can satisfy wider demand.

As more people are attracted by the possibilities offered by equity release, it is vital that efforts are made to maintain the standards of financial and legal advice across the sector, underpinned by appropriate regulation and The Council's own Statement of Principles and associated Rules and Guidance. These standards are crucial to maintaining the positive outcomes enjoyed by the vast majority of clients, based on an understanding of how equity release works and the situations in which it can be of benefit.

Total lending activity from 2009



Source: Equity Release Council


Culverwell

Equity and property prices

The 2011 Office for National Statistics Census tells us that 61% of single pensioner households have a total pension income of less than £10,000, and 45% of couple pensioner households have less than £15,000. The Census is expected to be updated in 2021 and despite the increases in the State pension since 2011, it is unlikely that the situation will have improved significantly.

Meanwhile, more than seven in ten people aged over 45, questioned in 2019, want to stay in their homes for as long as possible**. There are many reasons for this, including sentimental reasons. It is often the house their children grew up in, or they have a good circle of friends nearby or that they simply do not want to move.

UK net property wealth reached a record £4.6 trillion equivalent to £189,549 for the average UK property owner ***. A 2019 study found that almost two in three over-65 households have £125,000 or more in property wealth (62%), including a third (34%) with £250,000 or more** with over 65% of all property wealth owned by over 55s. This provides a large potential source of funding for things which may make life easier for older people. While some people may choose to downsize in later life, many people will prefer to stay in their own home, and equity release allows them to unlock money from their property.

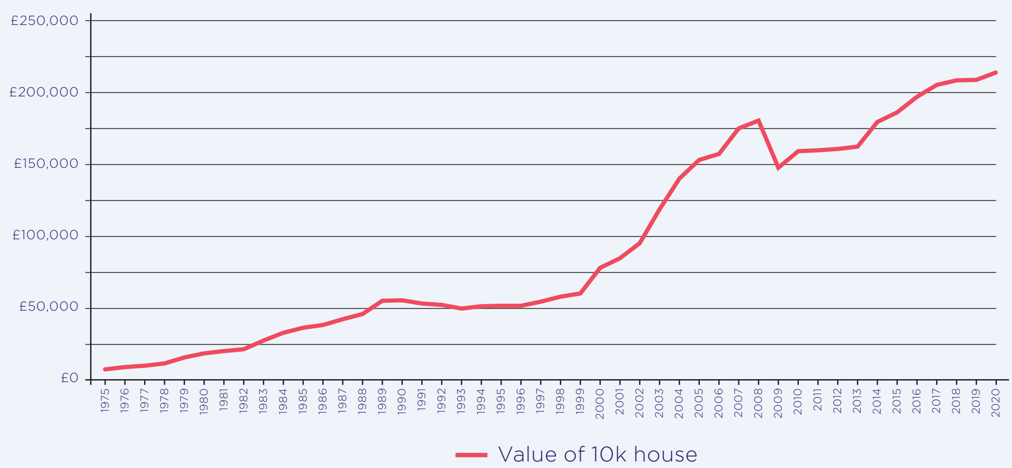
On average in the UK, a property worth around £10,000 in 1975 was worth about £215,000 in Q1 2021, according to the Nationwide housing index.

The graph below shows how the value of a property in 1975 has grown and what average percentage growth we have seen over the last 40 years.

Compared with pension income it is of no surprise that property has become such an important factor in assessing someone's wealth. Having the ability to access this part of their wealth within a client's retirement planning is crucial both to the client and to the country as a whole as it seeks to satisfy the needs of an ageing population and the costs of delivering pension income and future care costs.

However, while factual house price data is useful it is not an indication of future housing growth. Advisers and clients are discouraged from speculating on future price rises when considering equity release. Instead, it must be explained to clients that if house prices fall or do not grow as they might expect, the equity along with compound interest will erode the amount they ultimately leave to beneficiaries.

Growth of average UK property values since 1975



Source: *Office For National Statistics Census 2011. **Beyond Bricks and Mortar, Equity Release Council, June 2019. *** Spring Market Report 2021, Equity Release Council, April 2020.

Products

There are two main groups of products – home reversion plans and lifetime mortgages. In this section, we will look at each in more detail and then consider some of the broader products that might be appropriate to the needs of clients in this sector.

Lifetime mortgages

A lifetime mortgage allows your clients to borrow a set amount of money against the value of their home, they retain full ownership of their home (although they might need the providers permission for major alterations) and any interest on the loan can be paid as you go along or rolled up with nothing to pay until the end. The loan and any outstanding interest are then repaid by your estate when you either die or move to permanent long-term care (or in the case of a couple the last person living in the home).

Funds are available as either as a single lump sum or as payments from a preagreed facility.

This 'drawdown' facility can be useful, as it is impossible to accurately predict what your client may need to finance in 10 or 20 years' time, but the drawdown will be charged at the prevailing interest rate at the time it is taken. In recent years regular 'income' products have also entered the market, allowing applicants the chance to take an initial lump sum and supplement it by taking out a pre-agreed amount as a monthly income. Although strictly speaking these are payments of capital, they give the feel of income and can be extremely useful.

When it comes to retirement, your clients may be looking for flexibility that fits their long term income and lifestyle needs as well as the one off expenditures such as repaying an existing mortgage, home improvements, special purchase or gifts to family.

That is why many products have a range of flexibilities such as these drawdown facilities, the ability to take a further advance , the ability to allow regular repayments (interest only) and ad hoc repayments (usually up to 10% per year, to allow interest and some capital to be repaid) as well as features such as protecting a proportion of the capital for inheritance purposes.

Of course, product features and specifications vary from provider to provider, but broadly lifetime mortgages will take one of the following forms:

1. Lump sum products.
2. Drawdown products.
3. Interest Serviced products.
4. Impaired life products (lump sum and drawdown) which offer higher releases to those with adverse health or lifestyle factors.

These products will share broadly similar characteristics:

- Minimum age limit usually 55 but there are some products available to over 50s and often there is no maximum
- Minimum property value is from £70,000 but some lenders have a maximum property value
- Minimum loan amounts are often from £10,000
- Maximum loan amounts can apply but range up to £4,000,000 although £750,000 is the norm
- Minimum additional drawdowns vary depending on the product but they can be as little as £500

Although it is most common for lifetime mortgages to have a fixed rate of interest, some variable rate products are available. Where a product is offered on a variable rate, if it is to comply with the Council's standards, it must be capped.

All loans carry an early repayment charge, with some being variable and linked to gilt rates while others are fixed, decreasing over a set period of years to zero. This does not mean that people always have to pay an early repayment charge – variable repayment charges will vary from nothing to a set upper limit, while fixed early repayment charges will only apply for the fixed period but there are some circumstances in which there will be no early repayment charges.

The actual amount available to borrow depends on several factors. For those clients who require a large initial loan or cash reserve facility, lenders may offer a larger value loan for a higher interest rate.

The flexibility offered by today's products means it is possible to meet a client's lifestyle requirements and retirement plans as they change throughout retirement, right through to paying for long term care.

These flexibilities may include:

- Giving clients control and freedom over when and how they borrow money
- Most lenders have no time limit on cash drawdowns
- No minimum waiting period on further borrowing
- The upper limit on loans is determined by an agreed loan to value ratio
- Drawdown facility can be either linked or not linked to the initial loan taken
- Further drawdowns are not subject to additional valuations or underwriting criteria, but this option is subject to maximum limits and under certain circumstances the facility could be restricted
- The interest rate paid by your client depends on the level of flexibility they require and the value of the loan they take out
- High value lump sum and drawdowns may have a slightly higher rate

Find out what you need to know in the **'know your products'** module of the competency framework. **www.equityreleasecouncil.com/competency-framework/**

Home reversion plans

A home reversion is, in essence, the sale of the property to a provider for less than the current market value. In return for the sale at a discounted rate, the reversion provider gives the original owners a secure lifetime tenure in the property (either through a lifetime lease or trust deed).

This type of plan allows your clients to access part of the value of their property while retaining the right to remain in their property for the rest of their life. In most cases, no rent will be payable, though some plans allow for a higher release if the client pays market rent. With a home reversion plan the provider will purchase all or part of the client's house taking into account their age and health and then provide them with a tax-free cash lump sum (or regular payments) and a lifetime lease, guaranteeing them the right to stay in their property for the rest of their lives, or until leaving the property to enter permanent residential care.

There is no day-to-day interference and no restrictions on treating the house exactly as before, as a private home to live in freely although customers will need permission if they want to make any alterations. If the client doesn't sell the entire property, the percentage they retain will always remain the same regardless of the change in property values, unless of course they decide to take further cash releases. At the end of the product term their property is sold and the sale proceeds are shared according to the remaining proportions of ownership. It is possible to give a homeowner some certainty in their future finances - the client knows precisely what they have parted with and, equally, what has been ring-fenced for later use, possibly to leave in a will.

The market for home reversion plans has diminished in recent years but they should still be considered.

Broadly, home reversion plans will offer either:

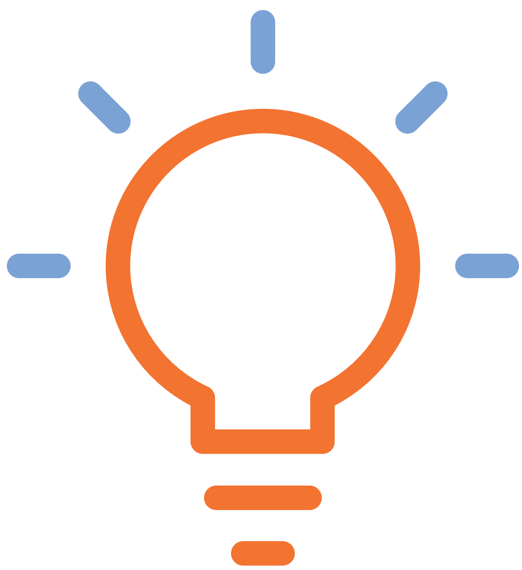
1. Lump sum.
2. Possibility of further advances.

Home reversion plans require the following:

- Minimum age limit is 65 and often there is no maximum
- Minimum property value from £80,000
- Minimum release is £10,000

As this is a straight sale of the property, there are no interest rates to worry about. The client will benefit from the increase in price of any of the percentage of the property they retain (and suffer any fall too). If the client sells 100% of the property (100% reversion) they will not benefit from any property price increase but won't suffer any falls. For this reason, it is good to understand your client's views on future house price movements.

Historically a home reversion plan could benefit clients by offering significantly more money than a lifetime mortgage. This differential has waned in recent years due to the existence of enhanced lifetime mortgages that take into account client's ill-health, similar to the enhanced annuity market.



Other later life lending products

There are other products available to later life clients, some of which might be more suitable. Having a strong appreciation of these products, even when they are outside the firm's advice remit, allows the adviser to recognise where such a product might best meet the needs of the client.

In some instances, the most appropriate solution for the client will be a referral to another adviser who can offer these products, and this should always form part of the needs-based analysis.

Although there are other options to consider, such as bridging finance and even mainstream mortgages, the two main later life lending products are:

1) Retirement interest only (RIO) mortgage

A RIO is an interest-only mortgage for clients aged 55 and over. It enables them to take out a new mortgage or replace their current interest-only mortgage with one that allows them to continue making interest-only repayments for the remaining time that they live in their home. They may also choose to take a larger mortgage than they currently have, subject to affordability checks, to use for things that they need or want. They allow people to release money from their homes, and only repay the full amount once all parties have either passed away or entered long-term care. RIOs, like Lifetime mortgages, may offer the option of flexible overpayments which means there may be an opportunity to repay the capital amount over the duration of the loan.

In contrast to lifetime mortgages, plan-holders are contracted to repay the interest monthly and during the application process will be subject to affordability assessments. For joint applicants, this includes income tests to demonstrate that each party can afford the repayments if the other were to die or enter care.

RIOs have the potential to allow applicants to leave all of the equity in their home to their beneficiaries when they pass away, when compared to an interest roll-up lifetime mortgage, because the interest will be managed throughout the duration of the plan, avoiding any compounding interest. However, plan-holders are required to make mandatory repayments, and remember the property may be repossessed if repayments are not made to a RIO mortgage.

2) Retirement mortgage

Retirement mortgages are a long term secured loan, available to those over 50. The term you can borrow depends on individual circumstances and these plans have a maximum term. For customers with a clear repayment strategy plan and an understanding of the point they wish to repay, they can offer more flexibility over a Lifetime mortgage and a RIO.

Over the term of the mortgage applicants will make repayments, with the term either being fixed (i.e. 10 years) or remain active to a specific age with the maximum term limited to the age of the youngest borrower, (if borrowing with a partner) which can be up to 95. Owing to the repayment structure, as with RIOs proof of income/affordability will need to be provided during the application process, and with it being a secured loan applicants can risk losing their home if they are unable to keep up with repayments.

Retirement mortgage holders, like RIO and Lifetime mortgages, RIO, may offer the option of flexible overpayments which means there may be an opportunity to repay the capital amount over the duration of the loan. This could leave beneficiaries with no outstanding debts; however, as with RIOs they are a secured loan, and the mandatory repayments will limit their suitability. Please remember the property may be repossessed if repayments are not made to a RIO mortgage.

Find out what you need to know in the **'know your products'** module of the competency framework. **www.equityreleasecouncil.com/competency-framework/**

Historical context and modern protections

Equity release is not a new concept, having been around since the 1960s. For much of its history, however, it has been dogged by controversy, with plans being considered too expensive, too inflexible, wiping out inheritances and being offered with too little regulation. People were wary of equity release for fear of losing their home.

It is important to acknowledge the issues of the past, in order to recognise how much things have changed. Product features have evolved to offer much more flexibility, costs have fallen significantly and both lifetime mortgages and home reversion plans are now strictly regulated by the Financial Conduct Authority (FCA). Many of the initial concerns held by clients no longer hold true and it should be relatively easy to put the client's mind at ease by demonstrating the protections afforded to them in the modern market.

One of the biggest developments since the birth of equity release, however, is the creation of the Equity Release Council. In today's marketplace, equity release clients enjoy three levels of protection, encompassing a structured financial advice process, face-to-face legal advice and product safeguards set out in the Council's standards.

In addition to complying with statutory regulation, Council members must also abide by the organistion's overarching principles and deliver its required consumer outcomes.

Find out what you need to know in the **'know your industry'** module of the competency framework. **www.equityreleasecouncil.com/competency-framework/**

Overarching principles

- Members will ensure that all their actions promote public confidence in equity release
- Members will act at all times in utmost good faith, with the best interests of their customers being paramount, by treating customers fairly in all their actions
- Members will ensure conflicts of interest are identified swiftly and managed fairly
- Members will seek to deliver suitable outcomes for customers from initial sale through every point of contact during the life of the product

Required customer outcomes

Council members will provide advice, information and professional services that are clear, transparent and impartial.

- They will offer customers the products and services that suit their needs best and which are fairly priced
- Members will seek to identify and provide appropriate support to customers who may be exposed to physical, mental and financial vulnerability at any point of contact
- Customers will be confident that they will be able to live in their own home for as long as they wish, or move to a suitable alternative property, as long as they abide by the terms and conditions of their contract
- Members will do their best to make sure that customers understand their rights and responsibilities at every point of contact

Equity release and care

Caring for our ageing population is one of biggest challenges facing society. The number of older disabled people is expected to rise from 3.5 million to 5.9 million by 2040 (an increase of 67%) and up to 7.6m by 2070. These are people who are characterised as having difficulty performing at least one of the ‘instrumental activities of daily living’ such as eating and toileting or money management and shopping. The latter pair of activities, although not essential to functioning, are important aspects of living independently.

Currently about 4m of those aged over 65 (equating to 40%) have a (limiting) longstanding illness, characterised as any long-term illness, health problem or disability for which there Is currently no cure, and which limits an individual’s daily activities, for example, diabetes and cardiovascular diseases. In addition, the proportion of people with multi-morbidity, the coexistence of two or more long term medical conditions or diseases, is 46% among those aged 65-74, rising to 69% among those aged over 85.

With all of that in mind, it is little wonder that we are seeing rises in demand for formal care. At present, 38% of older people receive the care they need from family and friends, but using housing equity could potentially allow them to receive more formal and organised care levels.

Housing equity has the potential to open up more avenues in the type and level of care those in later life receive. It is important to develop in this area. Specialist providers offer dedicated resources for advisers that complement the regulated process. These should be considered before entering into an equity release arrangement. It is worth exploring the opportunities these expert providers can provide in terms of materials and knowledge development opportunities.

All statistics taken from Age UK’s Later Life in The United Kingdom, May 2019

Equity release and financial well being

Financial well-being is the sense of security you feel from having enough money to meet your future needs. It comes when you have control of your day-to-day spending and have the freedom to make choices that let you enjoy life.

Independent Debt Charity StepChange know that a client's lack of resilience against life events is driving problem debt. They have identified that many are relying on a whole range of coping strategies to try and avoid debt. Yet, in many cases these are failing to help people to keep their head above water.

The two most common coping strategies are to cut back on expenditure and to use savings for day-to-day living. However, StepChange research shows that for many, these strategies are simply not enough to avoid problem debt.

Whilst people have different reasons for accessing equity release advice, one of its most useful purposes is as a problem-solving tool for either averting or avoiding problem debt.

However, it should not be the first option that people consider for resolving their problem debt – there are lots of options, and it's just one of the solutions that StepChange keep in their 'toolbox'.

It's more important than ever that the advice that sits behind the decision to repay or consolidate debt is thorough, questioning, and undiluted by an adviser's own financial considerations.

Find out what you need to know in the **'know your client'** module of the competency framework. **www.equityreleasecouncil.com/competency-framework/**

Education

Everyone involved in the equity release market needs to be confident that their recommendations do not lead to or encourage problem debt.

An adviser needs to ask questions that encourage clients to look ahead and consider how they intend to afford their lifestyle.

- How would they describe their attitude towards managing their money?
- When did they last review their budget?
- Does anyone else depend on them for money (such as children or a relative)?
- Have they consolidated this debt in the past?
- How much do they rely on borrowing?
- How would they deal with any unexpected cost?
- What alternatives have they considered?

Questions such as this help gather a full understanding of a client's financial situation. We'll come back to the importance of getting meaningful and detailed information in section three.

Awareness

Advisers are in a unique position of being able to make clients aware of the impact of financial well-being that goes far beyond simply consolidating debt.

An adviser can probe into the reasons behind the client's motivation and make product recommendations in the best interests of their overall financial well-being, while also educating clients on the benefits of building financial resilience.

Once trust has been established, the adviser can become a life-long partner and build on the opportunities that centre around their client's financial wellbeing.

StepChange can help your client with expert debt advice **www.stepchange.org** or call them on **0800 138 1111**

Qualifications

If this section has sparked your interest, you may well be looking to get involved in the market. To do that, you'll need the appropriate qualifications. Since 6 April 2007, all new equity release advisers have had to be qualified to offer advice on equity release.

The main routes for advisers are via the Chartered Insurance Institute (CII) and London Institute for Banking and Finance (LIBF). However, many people could practice under 'grandfather rights' that were obtained via other routes and qualifications prior to relevant regulatory dates.

There are also qualifications that are no longer obtainable, but still enable holders to carry out advice on equity release business.

The qualification route to advise on equity release is straightforward and the routes are detailed below. Note that in some cases prior learning or equivalent/ sufficiently advanced qualifications will give exemptions and you should check with your examining body.

Awarding Body	Required Module Blocks	Qualification
Chartered Insurance Institute (CII)	RO1 Regulation and Ethics or CF1 UK financial services regulation and ethics, plus CF6 Mortgage advice, and ER1 Equity Release	Certificate in Equity Release
London Institute of Banking and Finance (LIBF)	Certificate in Mortgage Advice and Practice, plus Certificate in Regulated Equity Release Units 1 and 2	Certificate in Regulated Equity Release (CeRER)

As well as formal qualifications, you'll need to be aware of any restrictions or licensing requirements imposed by your own firm or network. Before getting involved in the sector, you'll need to be sure that you meet whatever additional requirements have been set out.

If you decide not to qualify, you still have the option to take part in a referral service.

Find out what you need to know in the **'know your industry'** module of the competency framework. **www.equityreleasecouncil.com/competency-framework/**

Competency Framework

The later life financial planning landscape has been through significant change in a relatively short time. Where it was once acceptable to take a siloed approach to the advice process, financial services practitioners are increasingly expanding their service offerings.

This is a necessary step. The consumer demographic and the socio-economic environment those consumers inhabit is already challenging and yet constantly changing.

To support this continuing evolution, the Equity Release Council launched its competency framework, in February 2021. It has been designed to support industry professionals who are engaged with, or looking to engage with, the equity release market. The framework will guide advisers on their learning and development journey, from entering the market to achieving competent status.

The framework sets out what advisers need to know, it is not a textbook of learning materials.

The framework will focus on financial and legal advice, benchmarking the technical, business and interpersonal skills as well as the knowledge and experience needed, to excel in these disciplines.

The framework breaks down into bite-sized competence units that are divided into six modules:

- Know your Financial Services Industry
- Know your Market
- Know your Client
- Know your Soft Skills
- Know your Products
- Know your Process

Look out for the competency framework icon, throughout this document, which highlights where advisers can find out more about a particular topic.

The adviser toolkit and checklist

The adviser toolkit is for the exclusive use of Council members and is available in the members' lounge of our website. It contains a growing number of resources produced by the Council and some of its members.

One of the key assets in the adviser toolkit is the Council's adviser checklist and accompanying good practice. The comprehensive checklist is designed to complement customer-facing documents, including fact finds and suitability reports, and support a consistent standard of advice for consumers across the market. It builds on an update of the Council's rules and guidance, which came into effect on 1 January 2020.

The Council launched the accompanying good practice to complement the adviser checklist and support adviser firms when discussing and documenting customer needs.

Members can lookout for the adviser toolkit icon throughout this document, which highlights where members can find out more about a particular topic.

For more information visit

www.equityreleasecouncil.com/competency-framework/

www.equityreleasecouncil.com/adviser-toolkit

Equity Release Council

Section 2

Finding clients

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Contents

The Adviser Guide to Equity Release is for guidance only. Advisers must always refer and adhere to the regulatory regime set out in the Financial Services and Markets Act 2000, and the FCA Handbook. Use of this guide does not alleviate any responsibility or obligation to follow the regulatory regime set out in statute and secondary legislation. For more information on regulatory standards, please contact the Financial Conduct Authority, or visit their website www.fca.org.uk The Equity Release Council will not be held responsible for regulatory breaches incurred by firms relying on this guide for FCA compliance purposes.

The opportunity

In 2018, those aged over 50 represented around a third of the total population of the UK, and as we have seen in recent decades, life expectancy has increased (even if it has stalled somewhat in the last few years). By 2030 over one in five people in the UK will be aged over 65 and this will be one in four by 2045. It is projected that the UK will see an additional 8.6m people aged over 65 in the next 50 years*.

The UK population is ageing. In mid-2014 the median age of the UK population exceeded 40 for the first time, up from 33.9 in 1974[1], with projections showing that 70% of UK population growth will be among over 60s between now and 2039. At the same time, estimates for the total level of property equity among over-50s are as high as £2.8 trn. An ageing population brings with it a number of challenges, but equity release has the potential to help meet many of them while contributing to some of the key policy challenges faced by the government.

The UK's average retirement age is about 64 but it is projected to rise to 68 by 2037, after the government indicated it expects citizens to spend a third of their adult lives in retirement[3]. However, many individuals of pensionable age have not made adequate provision for their retirement and the effect is starting to become clear. Indeed, recent research has indicated that 58% of those without a final salary pension blame a lack of money for their deteriorating lifestyle[4]. Future defined contribution pensioners with 8% contributions can expect a pension of only 15% of their final salary. This is one fifth of the pension for an equivalent defined benefit pensioner.

Social and financial trends mean that older age groups have become the biggest owners of property today, and the most dependent on its contribution to their overall household wealth. This is significant given the financial challenges facing our ageing population as they seek to live longer, healthier lives. Many have made inadequate funding provision for their retirement and care needs, to the extent that fewer than half (43%) of adults aged 45+ expect to have a 'healthy' financial situation when they reach state pension age.

David Burrowes, Equity Release Council chairman speaking in the Council's June 2019 Beyond Bricks and Mortar report.

*Source: Age UK Laterlife Factsheet May 2019

1. Future of an ageing population - https://bit.ly/2BUx2yj
2. Savills: https://bit.ly/2YifFPf
3. Schroders, World pension ages on the rise: when will you retire? Nov 2017 https://bit.ly/3cTc9At
4. The Great British Retirement Survey, October 2019

Potential clients

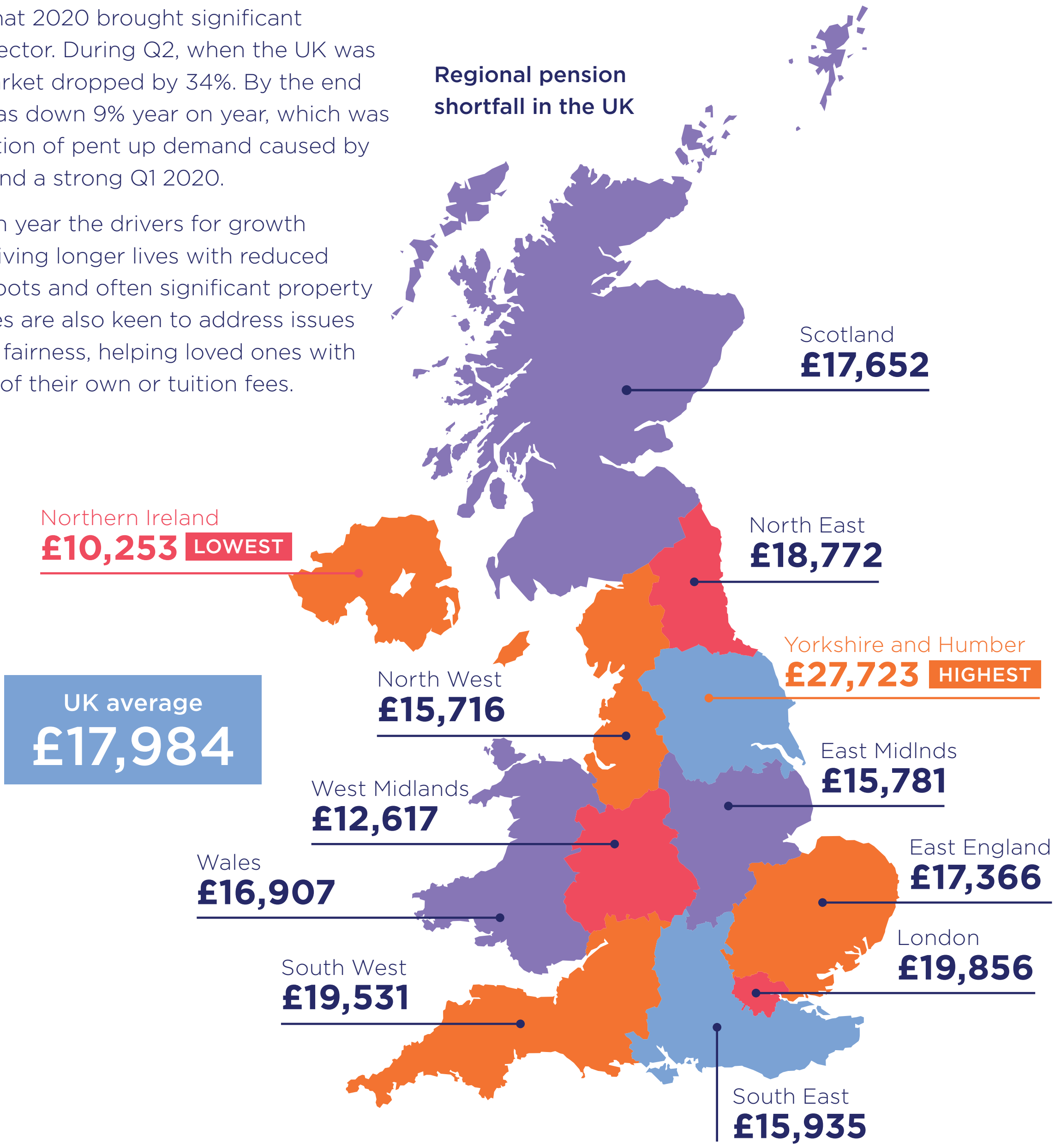
Given what we've seen about the potential opportunity, it is no surprise that the market has witnessed steady growth over the last decade, with the amount accessed by older homeowners each year growing from £945.97 million (2009) to £3.92 billion by 2019, representing an almost four-fold increase over the course of the decade. In 2019 we saw the market consolidate its growth, with lending volumes remaining largely unchanged from 2018 when £3.94 billion was unlocked.

There is no doubt that 2020 brought significant challenges for the sector. During Q2, when the UK was in lockdown, the market dropped by 34%. By the end of Q3 the market was down 9% year on year, which was down to a combination of pent up demand caused by the first lockdown and a strong Q1 2020.

Despite an uncertain year the drivers for growth remain. People are living longer lives with reduced savings or pension pots and often significant property wealth. Many families are also keen to address issues of intergenerational fairness, helping loved ones with deposits for homes of their own or tuition fees.

The Council's 2020 Pension/Property Paradox report found that the average home-owner in England and Wales could unlock around £88,290 in equity. Meanwhile, it was estimated that UK-wide pensioners faced a £17,984 shortfall on their desired annual pension.

Regional pension shortfall in the UK



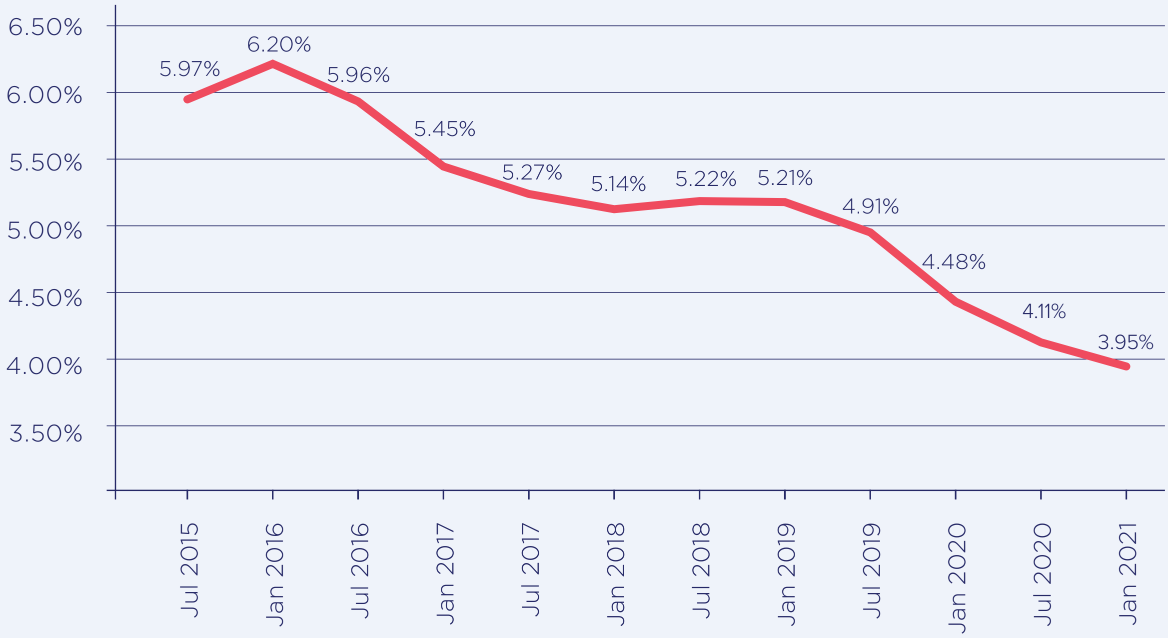
Source: Equity Release Council

The combination of better interest rates and historic increases in property values, combined with social and demographic changes mean more people are using equity release as a way of funding their retirement.

All of this means that your potential client base could effectively be anyone over the age of 55 that owns their own home (with or without a mortgage), although any existing mortgage will have to be repaid from the proceeds of equity release.

As you can see, there is a big opportunity. To access that opportunity, you need to consider the best way to transition your own business. Different advisers will work in different markets and have access to different groups of clients. The secret to success is finding access to the right clients for your own business model, using existing opportunities and developing new relationships.

Average equity release interest rates



Source: Moneyfacts Group plc

Client reasons
for releasing equity

To fully embrace the opportunity afforded by equity release, it is necessary to understand the reasons why clients release equity. This can be broken down loosely into those who need to release equity and those who want to – requirement versus aspiration.

Each individual client will have their own personal needs and requirements and it is a matter for the adviser to interrogate, challenge and record those reasons during the advice process. The graphics show that people often release equity for several different uses. In addition, they show that while some use may be popular only a relatively small sum is committed. For example, 61% of people use equity release to improve their home or garden, but only 11% of the proceeds of equity release are used for this reason.

How consumers spend the equity they released from their homes

61% improve their home and/or garden

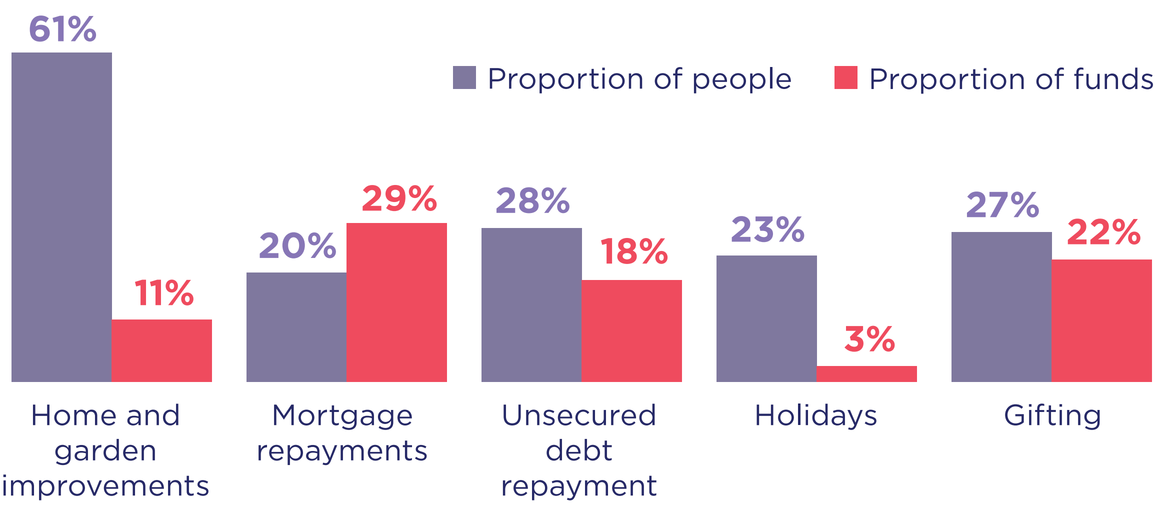
23% go on holiday

27% gift money to their family or friends

28% pay off debts (e.g. loans, credit cards)

20% clear their outstanding mortgage

Value of equity released vs. proportion of people using equity release



Source: Key Market Monitor FY 2020

Moving into the market

If you're thinking of moving into the equity release sector, there are certain things you should consider:

1. Identify your ideal client type

When considering who the client is, think about who is currently buying the product and who is likely to buy it: gender; age group; geographic location; income bracket; geodemographic classifications; lifestyle and media preferences, and/or what newspaper they read. Alongside this, consider which clients you have access to – what is your current client demographic? Which part of the equity release market would this lend itself to?

2. Selecting appropriate communication

Decide if direct mail is the most effective way to communicate with potential clients. If it is not, you should still apply the same rules for identifying your ideal client and then consider what is the most effective way to communicate with them, for example, local press, door drops, website etc. Put yourself in your potential clients' shoes and consider the most appropriate way to reach them. Remember this is an older audience, so think about the types of publications they will read, places they will visit etc. Publishers of local newspapers hold detailed client profiling information. You can use it to gauge whether or not they are suitable for communicating with your potential clients.

3. Generating new client leads

Working with your existing client data

Your database will consist of past, current and potential clients. It is important to check the accuracy of the data and ensure that it is up to date. Review client contact details such as title, name, address and check against any notifications of deaths, change of address etc. This 'cleaning' process ensures that the direct mail activity is as effective as possible. After all, there's no point mailing 1,000 clients if only half of them still live at the stored address.

Generating leads from referrals

This can be done in several ways including receiving referrals from mortgage brokers, wealth managers, accountants, and solicitors. To be successful at this, you will need to pinpoint these potential referrers, speak with, and educate them as to why understanding how these plans work could benefit their clients and then provide a great ongoing service. This will give you the opportunity for high quality lead sources over time.

Buying in consumer data

You can source consumer mailing lists to match your potential client types. To find a mailing bureau, have a look in your local business directory or under any one of the website search engines. The cost of mailing lists will vary significantly according to the type of data and the quantity that you are buying. You should complete full and thorough due diligence when buying in leads in this way. You will want to be sure that the provider is sourcing those leads in a legal and ethical manner and complying with all necessary data protection legislation.

You should also take due care to avoid breaching data protection rules and being mindful of both the Telephone Preference Service and the Mailing Preference Service. Both of these services offer consumers the choice of removing their names, addresses and phone numbers from or being added to mailing lists. This helps you to ensure you are communicating only with those who may be interested in your products and services.

4. Using your client information wisely

Segmentation of the data you are using is possible if you already have some understanding of the needs of your clients and why a lifetime mortgage is likely to be of interest. The next step is to group together the clients who share a common need for the product. For example, those who are very low on income and may need a lifetime mortgage to meet everyday expenses.

5. Word of mouth

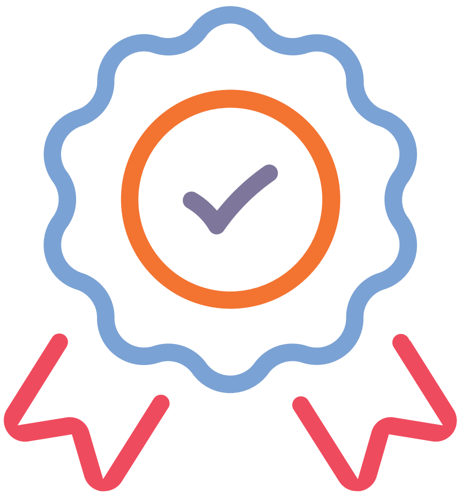
Client referrals are quite common in the equity release sector. Clients often have friends that are in the same situation and may also be interested in equity release.

6 New media

We live in increasingly technological times. Advisers are turning to new media sources such as Facebook, LinkedIn or other commonly accessed platforms in greater numbers. Both paid advertising and thought leadership, through creation of targeted content, can produce potential clients but you must be mindful of the FCA's financial promotion rules.

7. Seminars

With retirement such a hot topic, and with the confusion around pension freedoms, this is a natural topic that you could build a seminar around and introduce the concept of equity release as a retirement planning tool. Considering clients by location is another way to think about things, looking at areas where demographics and property values match those of existing equity release clients.



Whether you decide to buy-in or use your own existing client data, you need to be sure you are only contacting those potential clients that you have a right to contact. Express consent is needed to contact clients which means absolutely no cold calling.

Wider business development

Partnerships offer another rich source of marketing. Expanding your product range to those that you already have a partnership arrangement with or offering it as a new service to the many potential partners who do not have anyone to refer to. For example, this could include local solicitors, estate agents, mortgage brokers and IFAs who are not active in the equity release market place, to name just a few.

Such partnerships can result in high quality leads and valuable long term relationships built on mutual trust. Although earnings will have to be shared, the quality and frequency of leads can be a great advantage for advisers new to the market.

Entering a new market can be an overwhelming experience as you find your feet and try to make the most of its opportunities. The equity release sector has collectively recognised the importance of providing its adviser network with the resources to help them make the most of the market's opportunities, and as a result the Council and many of the member firms provide support and assistance to help you grow your business and best reach your clients.

Roadshow Events

Roadshow events hosted by trade publications and leading companies within the market are frequently free to attend and provide a great opportunity for you to not only hear insight from across the industry but also to network and forge relationships with key contacts at leading firms. In addition, they count towards your continuous personal development plan, giving you further residual benefits beyond the sessions themselves.

Expos

While roadshow events offer an opportunity to better your knowledge in an intimate setting, expos can often act as a one-stop shop for anyone seeking to better their knowledge and connections within the sector. In addition to keynote speakers, large events such as the Financial Services Expo and Mortgage Business Expo also feature a physical presence from all of the major firms allowing you to build connections with their sales teams and find out about their latest developments and how they can help your clients.

Webinars

Often available to watch on-demand, webinars make for a convenient way to develop your knowledge. Most firms and leading trade publications will have their own series, and they'll often be a mix of latest product updates (ensuring that you're getting the latest details of their products and enhancements, and how they can benefit your clients) and wider industry trends usually collated from adviser feedback, meaning that the wider sector always has ready access to information on the latest relevant trends.

Marketing support

While having access to industry insight is important, so too is making sure that you're understanding your clients and reaching out to them through appropriate channels. Many lenders offer marketing support, ranging from data reports detailing client habits and demographic trends, through to practical assistance such as white-label materials and collateral production. Once you've formed relationships with lenders it's always worth enquiring about what they may be able to provide in terms of assistance going forward.

Satellite Industries

Interacting with satellite industries (i.e. sectors which are associated with your target audience, but which aren't directly linked to equity release) can be a great way to widen your knowledge and better understand your clients.

Mortgage Clubs

Mortgage clubs afford advisers the chance to benefit from networking opportunities and in-house support systems right the way through to exclusive rates/products. For advisers new to the market (or even seeking to further develop their existing business), clubs can provide a great opportunity to develop greater links with the wider market.

Approaching the client

Once you have cleared the necessary regulatory hurdles, there are a variety of tools you can use to engage with your client in the initial approach stage. You can use telephone scripts, which can help determine particular needs of your client at an early stage, plus identify their hopes and aspirations for the future. Initial approach letters can help you to create interest from your client base and follow up letters can help you move onto the next stage of fact finding with your client. To support you, we have samples or templates of initial approach and follow up letters available in the Adviser Toolkit.

Telephone scripts

To best serve your clients you need to understand what motivates them. So during the initial fact finding telephone conversation, you need to get a snapshot of their current situation. This includes considering not only a client's financial position but also their needs and requirements. Use active listening techniques to encourage your client to do most of the talking.

- Occasionally summarise and paraphrase the client's comments, i.e. "so what you're saying is...".
- Ask a question and remain silent until the client provides a complete answer.
- Repeat specific words the client has used "you said you wanted to be secure and content in retirement..."

It is important to remember not to apply pressure or put words in people's mouths, but to genuinely listen to your client's needs.

Use open questions to gather information. Open questions begin with words such as what, why, when, how, where and who. This type of empathetic questioning will encourage trust and build rapport.

You can also use closed questions to confirm or qualify information. Closed questions can be answered with a yes or no. However, the use of closed questions should be kept to a minimum to keep the conversation flowing. We'll look at some of these 'soft skills' in more detail in section three.

Initial approach letters

Speculative letters can help create interest in lifetime mortgages and encourage the reader to find out more. Focus on the outcome, for example what equity release could mean to them in terms of relieving financial pressures and improving lifestyles.

Possible points to include:

- Retirement may mean more time but less money
- Types of equity release products, i.e. home reversion plans and lifetime mortgage
- Details about the popularity of lifetime mortgages and industry statistics from the Equity Release Council website
- Case studies of previous clients you have helped, being careful not to reveal any personal details
- The key features of lifetime mortgages, such as secure tenure, no monthly payments, reduction of value of estate and the no negative equity guarantee
- Your membership of the Equity Release Council, which demonstrates you are committed to going above and beyond the statutory regulation and maintaining high standards at all times
- An invitation to request further information about equity release products

Follow up letters

After your clients have received information from you about equity release, a follow up letter can be used to prompt further action. Again, focus on the outcomes for the client.

Possible points to include:

- Reiterate how retirement can mean a change in income levels
- Any effect choosing an equity release product may have on your tax status
- Entitlement to some means-tested benefits may be reduced or removed
- Your ability to sell your home or to move may be affected
- Releasing equity also means your estate would receive less and it may receive nothing from the sale of your home
- Encourage potential clients to include family or friends in discussions about equity release
- Use plain language
- An invitation to request a personalised illustration

Vulnerable clients

Anyone can be vulnerable at any stage in their lives. However, given the consumer demographic for equity release it is reasonable to assume a greater proportion of clients may be vulnerable, when compared with other financial services.

In this section we will look at the concept of vulnerability down to its financial services definition as applied by the regulator, and its various stages.

In addition, we will consider some of the tools and frameworks available to help you identify and support vulnerable clients, and the practical steps you can take to accommodate their needs.

What is vulnerability?

The FCA define a vulnerable consumer as "someone who, due to their personal circumstances, is especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care."

Clients can travel through the different stages of vulnerability and while some will be in a vulnerable situation once (and for a limited period of time), many can experience repeated episodes of vulnerability due to illness or common events and others will have longer-term and more constant needs.

It is important that we recognise this wide range of potential vulnerabilities and think beyond a simple model of old age. The FCA, in their consultation paper 'Guidance for firms on the fair treatment of vulnerable clients' draws out the multi-dimensional nature of vulnerability and highlights the fact that one client could suffer from a range of different vulnerabilities, potentially at the same time.

Health	Life events	Resilience	Capability
Physical disability	Caring responsibilities	Low or erratic income	Low knowledge or confidence in managing financial matters
Severe or long-term illness	Bereavement	Over indebtedness	Poor literacy or numeracy skills
Hearing or visual impairments	Income shock	Low savings	Low English language skills
Poor mental health	Relationship breakdown	Low emotional resilience	Poor or non-existent digital skills
Low mental capacity or cognitive disabilities	Non-standard requirements such as ex-offenders, care leavers, refugees	Lack of support structure	Learning impairments

Source: FCA GC19-03 Guidance for firms on the fair treatment of vulnerable clients.

Some vulnerabilities will be current and will remain for life. Others may change from time to time, with periods of increased vulnerability and periods of lesser or no vulnerability. It is important to recognise whether your client has a current vulnerability that needs you to adapt your process, or a potential vulnerability that simply requires your awareness.

It's also important to consider a person's mental capacity, which is determined by their ability to understand, remember and weigh-up information relevant to a specific decision, and then communicate that decision.

Tools and frameworks

The Mental Capacity Act 2005 states five principles that are applicable to equity release advice

1) Assume a person has capacity unless proved otherwise.
2) Do not treat people as incapable of making a decision unless all practicable steps have been tried to help them.
3) A person should not be treated as incapable of making a decision because their decision may seem unwise.
4) Always do things or take decisions for people without capacity in their best interests.
5) Before doing something to someone or making a decision on their behalf, consider whether the outcome could be achieved in a less restrictive way.

The CONC 7.10 section of the FCA Handbook is dedicated to treatment of clients with mental capacity limitations, and states that where a capacity limitation has been disclosed or identified, the form should (where possible):

- Assist the client to make a borrowing decision, while mitigating any risk to the client
- Review current practices and determine if they're fit for purpose
- Put a policy or procedure in place, ensuring staff have support material to refer to

The BRUCE protocol has been developed to help firms address the FCA's CONC guidance on mental capacity limitations and credit and can be used to both identify and help support clients with decision-making limitations. The protocol works on the following criteria:

[B] Behaviour and speech – staff should monitor a client's behaviour and speech for indication of difficulties with:

[R] Remembering – is the client exhibiting any problems with their memory or recall?

[U] Understanding – does the client grasp and understand the information given to them?

[C] Communicating – can the client share and communicate their thoughts, questions and decisions about what they want to do?

[E] Evaluating – can the client weigh up the different options open to them?

You should remember that the decision is the client's to make and try to avoid guessing what is 'wrong' with the client – focus on the decision making difficulties they may have, and how you can help them.

Accommodating vulnerable clients

There are a number of simple, yet effective, practical steps you can take to accommodate vulnerable clients.

These include:

- Allowing more time for the application process to take place, meaning it proceeds at a pace set by the client
- Hitting pause and allowing a client to regain capacity and resume at a later point
- Offering information in alternative formats (i.e. letters and e-mail)
- Keeping things simple and discussing each feature or option separately
- Involving trusted family or friends and asking if someone can support or help the client
- Making the client aware that support is available and tailoring the approach to their needs

In accommodating vulnerable clients, the TEXAS framework is particularly useful in how to approach conversations about vulnerability and comply with the data protection regulations that apply with regards to sensitive personal data.

[T] Thank the client for sharing the information and reassure them that it is useful and helpful for the firm to be aware of the full situation.

[E] Explain that the information is important and will help manage the arrangement better. Explain how recording the information means they will not have to repeat themselves every time they contact the firm.

[X] eXplicit consent from the client to record any information must be obtained. If you propose to introduce the client to third parties then explicit consent must be obtained from the client to discuss their situation with 3rd parties.

[A] Ask questions on how the situation inhibits the client from communicating with the firm, in meeting their obligations, and what additional measures may be put in place to ease the situation.

[S] Signpost to the client any third parties that may be able to offer help and support in the given situation. If the client has not given explicit consent for the firm to talk to third parties on their behalf, then the client should be given contact information for any parties who could offer support and practical guidance.

Building a vulnerable client policy

A vulnerable client policy is essential for any firm operating in the financial services market. The purpose is to set out the firm's response to the issues of vulnerability and the outcomes that it wants to create. It will also incorporate the practical processes for identifying vulnerable clients, recording information, flexible approaches to vulnerability and approved sign-posting contacts to use in specific situations.

The policy should include:

- The firm's approach and desired outcomes with respect to vulnerable clients
- How to recognise signs of vulnerability
- How to incorporate necessary flexible processes to address vulnerability needs
- How to sign-post to third parties in particular instances of vulnerability
- The training programmes in place with regards to vulnerability, their scope and if this is mandatory for particular departments alongside the reasoning for this

Find out what you need to know in the **'know your client'** module of the competency framework. **www.equityreleasecouncil.com/competency-framework/**

Other tools are available, such as the IDEA and CARERS protocols.

More information can be found in the FCA's practitioner's pack:

https://bit.ly/2ALDaZ4

Equity Release Council

Section 3

Establishing client needs

Contents

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Opening the client relationship

This part of the guide is designed to help you through the opening stages of the equity release advice process, from initial client contact through to completing the fact finding appointment. In the next section, we'll take this further by looking at formulating and presenting advice.

In the early stages of the adviser / client relationship, there are three important exchanges of information that should take place. These exchanges ensure that both parties have a common understanding of the service to be provided and allow the client to fully understand and engage in the process.

In brief, the three exchanges are:

Initial disclosure

Providing information to the client

Obtaining information from the client 'fact finding'

Let's take a look at each of these in more detail...

Initial disclosure

You are expected to provide the client with certain key information when you first make contact with them. In the past, this information had to take the form of a mandatory 'initial disclosure document' (or IDD) and, although the IDD is no longer a mandatory requirement, many firms still use it.

Initial disclosure ensures the client understands and accepts the nature of the service you're going to provide. It gives them important information about the regulatory protection available to them and details of the costs involved in working with you.

Irrespective of whether you use an IDD or not, you must give the same information to the client on initial contact.

The information that must be provided to the client includes:

- The scope of service you offer
- Your regulated status
- What he/she will have to pay for your service
- Whether any fees are refundable
- Contact point for complaints, and reference to the right to take a complaint to the Financial Ombudsman Service, and
- That they are covered by the Financial Services Compensation Scheme and the level of protection provided

Scope of services

You are free to restrict your services, provided the client is made fully aware of the nature of any restriction. For example, you might recommend from all products on the market without limitations. Alternatively, you might only offer the products of a limited number of lenders or a single lender.

If you base your service on a limited number of lenders you must tell the consumer that they can ask for a list. You should also make it clear here whether you will advise on both lifetime mortgages and home reversion plans or just one of these.

It is vitally important that the client understands what is in and what is out of scope. There should be no nasty surprises later on and, importantly, you should make sure you deliver what you promise.

Explaining and agreeing fees

Equity release is, almost exclusively, an advised purchase and requires that the adviser be appropriately authorised to advise in this specialist area. The FCA requires that advice is given. If the client wishes to reject that advice they may do so and insist on their own choice of solution, however advice must have been provided. The specialist nature of this market means that in almost all cases advice fees will be charged.

The fees involved in providing advice will form an important part of the initial disclosure and should be discussed with the client during initial consultation. Depending on the client's financial position, fees may be paid from their existing resources or alternatively may be added to the amount to be released. Where the client has the resources to pay the fees but opts to add them to the release, the adviser should evidence that the effect of the interest on the fees has been explained and clearly document the reasons why the client has chosen not to pay them upfront.

There are also some products where the lender offers their products as 'fee free' paying both the solicitor's and adviser's fee to maximise the amount the client receives.

The level of fee to be charged should be agreed with the client and, where appropriate, documented in a client fee agreement. This document sets out the formal fees that are chargeable and the services agreed between the client and the adviser.

The document should be edited to show the specific client's name and address details. The agreement should be signed and dated by the client, who should be provided with a copy for their records. The original should be held on your client file. Chargeable work should not start until this time has elapsed.

The FCA has said it expects to see a comparison with the effect of paying the fee versus not paying, calculated with interest over time.

Clarity of communication

When you communicate information to your client, you must ensure that you communicate in a way which is clear, fair and not misleading. This means that you must judge your client's level of financial knowledge and adapt your style accordingly. Be aware that your client may not have a high level of knowledge of financial terminology or jargon, so ensure that you present all information as clearly as possible. Take extra time to explain financial terms clearly, if necessary, so that your client can make an informed decision.

Find out what you need to know in the **'know your process'** module of the competency framework. **www.equityreleasecouncil.com/competency-framework/**

Members can find the checklist and good practice guide in the adviser toolkit **www.equityreleasecouncil.com/adviser-toolkit**

Providing information to the client

Research has shown that clients have better outcomes from the sales process when they feel fully prepared to engage with the adviser. Those who are most informed are able to think carefully about the decisions involved and formulate questions.

Some advisers choose to provide the client with basic information about equity release before conducting any meetings. This allows the client to gain at least a basic awareness of the product features, benefits and risks before they start the journey toward advice. Other advisers prefer to give the client information at the fact-find meeting and invite the client to ask questions. Both approaches have benefits, the most important thing being that the client develops a good understanding of at least the basic principles.

Your clients need to be in control, so it is important that you provide them with all the facts. There is no mandatory content here, but there are certainly some best practices.

Some of the things you might consider at this point are:

- Equity Release Council Consumer brochure
- Overview of the basic principles of equity release including (where appropriate) the effect of compound interest
- Balanced overview of both lifetime mortgages and home reversion plans
- Whether alternative later life solutions might be suitable
- Features of modern equity release solutions, including flexibility
- Protection provided by Equity Release Council standards
- The advice process that will be followed

It is also extremely useful to understand what the client wants to get from the meeting. Asking the client for their agenda will often reveal a knowledge gap that they would like you to fill.

You should try to cover both the advantages and disadvantages associated with releasing equity, so that the client can make an informed decision about the suitability of equity release as a solution. Some of these advantages and disadvantages may be consistent through all lifetime mortgages or home reversion plans but may also be particular to a specific product.

Some key considerations include potential impacts on:

- Means tested benefits
- Funding future long term care
- Moving home at a later date
- Future inheritance for beneficiaries

It is likely that this transfer of information will result in questions from the client. Sometimes these questions won't occur to the client until after the meeting so it is important that they know how they may contact you with questions both before and after the presentation meeting.

Obtaining information from the client – fact finding

The most important exchange of information is the completion of a full fact find to establish the client's current circumstances, including their short, medium and long-term objectives and their desired outcome. The more complete and detailed the picture you can paint, the easier it will be to research a suitable product and make a recommendation. Key to the success of your fact finding is your ability to build rapport with the client. The more they trust you, the more willing they are likely to be to give you the information you need. Explain that the questions you will be asking are not meant to be intrusive as they have been designed to allow you to make a bespoke, personalised, recommendation.

The information contained within the fact find must be gathered prior to discussing any suitable options with your client. You must 'know your client' before offering any type of advice. The fact find must contain sufficient personalised, accurate, detailed information including soft and hard facts to allow you to make a recommendation and give advice. If any piece of relevant information is missing, the suitability of advice may be in question.

The FCA and compliance teams generally take the approach that there can be never too much information recorded in a fact find. This, of course, must be balanced with common sense and if a piece of information is missing that would have little or no effect on the recommendation made, it can be generally be left out. Ensure any discussions are fully documented and include any soft facts that capture the customer's voice and thoughts.

If a client is unwilling to disclose information, this may mean that you will not be able to continue with the advice process and you may have to reiterate the importance that obtaining all information is vitally important if they want advice.

Involving family or friends

Wherever possible, it is good practice to suggest that the client has either members of their family or a trusted friend present in the meeting. This provides extra security for the client and helps demonstrate client fair treatment. Ensure that your client is comfortable and relaxed with the presence of the family member or friend. Consider possible coercion, particularly if the person attending is the recipient of a financial gift, they appear agitated or they are keen to take ownership of the discussion.

You should also respect that the customer might not want family or friends engaged and document why. Having family involved can help avoid any potential problems in the future, if beneficiaries are aware of any implications for the estate, but ultimately all decisions rest with the client.

Giving advice regarding equity release includes dealing with product features, benefits, risks and client emotions. Your clients may feel a strong emotional tie with their home, it may be where they brought up their family and where the family gathers for celebrations. It is essential to ensure that you gather all the relevant facts, and you should check that the client is happy discussing all their personal financial affairs in front of family (or friends). In some cases, the client may ask you to talk to someone on their behalf outside the meeting. Where this happens, you should be clear what the client is willing for you to share with the third party, to avoid any potential data protection issues.

Members can find the checklist and good practice guide in the adviser toolkit
www.equityreleasecouncil.com/adviser-toolkit

Hard facts and soft facts

As noted, when completing the fact find, it is important that you capture both 'hard' and 'soft' facts. Hard facts are pre-populated questions such as: how much income the client has; how old they are; and their marital status, for instance. Soft facts are thoughts, feelings, emotions and opinions. In the equity release advice process, it is often these soft facts that help shape the product solution to ensure the client's needs are properly met.

Good quality supporting notes can help record any particular feelings your client may have about aspects of the product, or any future needs, wants or aspirations.

Keep it simple

As we have seen, equity release is a product for clients who are over 55 and many will be potentially vulnerable. It is important that you adjust your style to cater for the individual needs of the client. In many cases, the fact find is completed face-to-face but it may take place on the telephone. Set an agenda at the start of the meeting and include an estimated time/ensure your client agrees to this. However, in both cases, you should be mindful of the concentration span of older clients and consider breaking the fact find up into more than one stage if it appears to be too much for them.

Other things you should consider include:

- Avoiding jargon in your questions
- Using a blend of open questions to get the client talking and closed questions to clarify
- Use of playback to check the client's understanding
- Signposting sections of the fact find so the client understands why certain information is needed

Client objectives

One of the key aims of the fact find is to establish, in detail, the reasons why the client wants to release equity and, importantly, the amounts. Research has shown that there are typically two key consumer groups for equity release, though of course each client will have individual circumstances.

- Aspirational: Those who want to maintain their lifestyle, sustaining comfort in retirement.
- Need driven: Those who are less comfortable in retirement and need cash more urgently.

We touched on these in section two when we looked at finding clients, but it is worth recapping on some of the key characteristics.

Aspirational

These clients may:

- Have enough money to live on presently but see need for future additional funds
- Foresee fund shortages and plan accordingly
- Involve a longer purchase process as they have less immediate need for funds
- Find equity release appealing and use it to maintain their current lifestyle
- Prioritise value for money
- Take a pragmatic approach, drawing on previous financial experience

Money released will often be spent on:

- Holidays
- Home improvements
- Funds for children/grandchildren
- Use as part of planning their retirement income

Needs driven

This group is less comfortable and likely to have different priorities. Broadly, they may display the following characteristics:

- Still mortgaged in retirement without any means to repay
- Do not have the means to pay existing bills with current income
- Unlikely to have foreseen fund shortage and have an immediate need
- Involve a shorter purchase process
- Their main criteria may be to ensure they get enough money to meet their needs
- Current needs may outweigh future concerns around leaving an inheritance or funding care

Money released for this group is more likely to be spent on:

- Repayment of mortgage
- Household bills or repaying unsecured debt
- Vital property repairs
- Medical treatment not covered by the NHS
- Adapting house for old-age use
- Paying for a loved one's care

Find out what you need to know in the **'know your process'** and **'know your client'** modules of the competency framework. **www.equityreleasecouncil.com/competency-framework/**

Members can find the checklist and good practice guide in the adviser toolkit **www.equityreleasecouncil.com/adviser-toolkit**

Whichever group the client fits into, the process is still the same.

The fact find needs to properly establish the reasons for wanting to raise capital and the amounts they require. You need to capture sufficiently detailed hard and soft facts to allow you to formulate a recommendation.

- Why do they need income or capital?
- Is capital required for a large purchase or ongoing commitments?
- Are they likely to want to raise further money in future?
- If they are, how much and when?
- Do they want to make payments and service the loan?
- Do they intend to repay the arrangement early?
- Do they prefer to sell a portion of their home to raise capital or retain 100% ownership?
- What features and benefits do they require?
- What plans do they have for their beneficiaries, do they want guarantees?

Current circumstances

An important part of the fact find process is establishing the client's current financial situation. This means understanding what they currently have in place, including their current income and savings and how this relates to their objectives. Ultimately, this knowledge will allow you to make a bespoke recommendation that is the best solution for the client.

It is important that the following client information is also gathered on the fact find:

- What is their state of health? (Some products offer higher LTVs for impaired lives)
- Potential vulnerability or recent traumatic events
- How much do they want to be able to leave to their family?
- Have they spoken to their family?
- Whether they would like to be accompanied and if so who attended?

If payments are to be made

Affordability does not apply because it must be possible to roll up the interest to meet the definition of a lifetime mortgage, but it is relevant when assessing whether a roll up or part/full interest paying product is suitable.

As an adviser, you should consider whether the client has the desire and means to make regular payments of interest, or ad hoc payments, when recommending a product.

You should consider:

- Current interest rates which might rise in the future unless fixed
- The client's current circumstances which might change in the future
- Information that the client provides about their income and expenditure and any other resources that they have available

Some clients may prefer to defer making payments to service their loan for several years and a reminder should be given that flexible payments may be made either now or in the future.

Debt consolidation

Where the purpose is to consolidate debts, you must also take account of the following, where relevant, in assessing whether the regulated lifetime contract is suitable for the client:

- The costs associated with swapping from simple interest to (potentially) compound interest
- By adding this debt to their lifetime mortgage, they may be spreading the cost over a potentially longer term, which although may reduce their monthly outgoings, it will result in the overall cost of the debt increasing
- Could they consider debt counselling or debt management advice?
- Have they talked to their creditors about refinancing their loan by extending the term or reducing the interest?

Customers who are consolidating several credit cards or unsecured loans might be better served if they are advised to negotiate with creditors and reconstruct their arrangements into one affordable payment, via a short-term personal loan. Advisers should consider whether the customer could benefit from seeing a debt adviser if they are unable to offer this advice.

Members can find the checklist and good practice guide in the adviser toolkit
www.equityreleasecouncil.com/adviser-toolkit

Attitudes

As we've seen, soft facts are vitally important in the fact find process. It is important to establish the client's views in certain key areas that might impact on the suitability of equity release or the selection of the most appropriate product.

Some of the most important attitudes to establish include:

- Views on house price falls in the future
- Importance of being able to leave an inheritance
- Funding long term care
- Potential for early repayment such as on first death
- Future needs for capital and income
- Client's view on future interest rates. Would they prefer a fixed or capped rate?
- Client's state of health and views on life expectancy

All of these can help when making a recommendation. For instance, a client who has a certain intention to repay the arrangement in the future might favour fixed rather than variable early repayment charges, or a client who regards leaving an inheritance as vital might want to include inheritance protection.

Alternatives and order taking

Advisers must consider alternatives to equity release and be prepared to challenge customers' initial pre-conceived ideas. The adviser's role is to recommend the best financial solution to meet the customer's needs and objectives, rather than simply take customers' orders or preferences without question.

In its June 2020 report, ***The equity release sales and advice process***, the FCA said failing to do so amounted to "taking orders" from customers without taking sufficient steps to assess whether equity release was suitable with regard to each customer's specific needs or circumstances.

Part of your role as an adviser is to explore the various alternative options that could be better than equity release in their circumstances. This isn't a matter of 'talking the client out' of equity release, but simply a matter of exploring whether there might be better options. It is vital to cover these in your fact find and capture the client's own views.

Some examples you might consider include:

- The use of a conventional loan, mainstream mortgage or retirement interest only mortgage
- Gifts from friends/family
- Grants/benefits – for example disabled facilities grants
- Other assets or investments
- Moving home and downsizing
- Taking in a lodger to generate additional income
- Simply doing nothing – or at least deferring action
- Short-term borrowing such as personal loans

Priorities/trade-offs

Sometimes it won't be possible to give a client everything they would ideally like. As an example, if a client wanted a large drawdown facility to be available for the future, but also wanted to achieve the lowest possible interest rate, these two may be incompatible. Where there are potentially conflicting goals, it is important to clarify the client's priorities and consider which goals they are willing to trade off in order to achieve their priorities.

It can be really useful to ask the client to rank features in order of priority, for instance:

- Highest possible release now or in the future
- Lowest interest rate
- Leaving a guaranteed inheritance
- Interest rates that are fixed for life
- Fixed or variable early repayment charges
- Low set-up costs
- 3-year window on first death
- Ability to make payments

Property considerations

Many lenders will have a variety of property restrictions in place on their terms and conditions. You should bear these in mind during the early stages of your discussions with clients and address them prior to making a recommendation or submitting an application, as this will avoid disappointment. Lenders will have a sales team or business development managers for advisers to talk potential cases over with. They can provide answers relating to any sticking points the adviser may have identified with properties such as thatched roofed cottages, listed buildings or solar panels.

During the fact find, you should ask questions about the property to establish whether there are any aspects of the property that might cause concern to certain providers. Remember, with equity release, the client's age, property value and its condition are key.

Some of the relatively straightforward issues include:

- What type of property is it?
- What is the construction?
- Is it the client's main residence?
- Is any business conducted on the premises or is it adjacent to business property?
- Are there agricultural ties or similar?
- Is the property freehold?
- If leasehold what is the unexpired term of the lease?
- Is the property owned on a joint tenancy or tenants-in-common basis?

Other considerations

Former local authority properties: many right-to-buy properties will have a pre-emption period, usually around five years post-purchase, that would restrict any lending being made against the property. Some providers will require a higher minimum value where the property is ex-local authority or ex-Ministry of Defence. Some lenders will not lend on retirement homes.

Modern/alternative construction methods: while standard construction methods are usually accepted, some modern methods, such as volumetric/modular construction, will need to be referred and queried. The same applies to alternative construction methods such as timber-framed properties, and certain types of concrete construction. Other things like spray foam insulation in the loft or a lack of a firebreak between properties might prevent some providers from accepting the property.

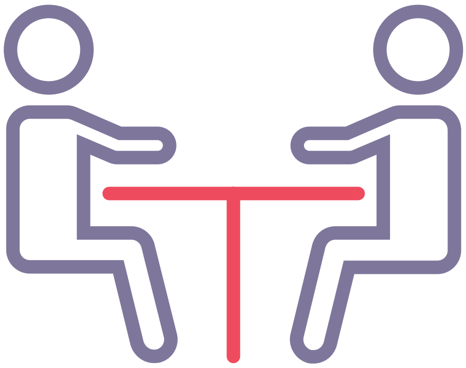
Height limits: many lenders will have height limits that they will not lend beyond. For example, they may not lend on properties higher than four storeys.

Bedrooms and acreage: larger properties may need to be referred for consideration as lenders may have restrictions in place relating to the maximum number of bedrooms they accept. Additionally, they may also have limits relating to the number of acres of land a property sits in.

Proximity to commercial premises: many lenders will give careful consideration as to whether to lend on properties which are situated near commercial premises. Given that each case will be different, it is worth advisers liaising with the lender in the first instance and ascertaining whether they'll lend against the specific circumstances.

Environmental factors: history of subsidence, Japanese knotweed in the local area, proximity to electricity pilons or rented solar panels are all potential concerns.

Construction and additions: solar panels can cause problems as some lenders will not consider them particularly if they are leased. Properties with a flat roof, especially above 25% may also be restricted.



Regional variance

While much of the equity release process will be relatively nationally standardised across the United Kingdom, there will be degrees of regional variation which need to be considered during the process. This can manifest differently from region to region (for example differing maximum loan amounts and procedural processes) and can be driven from a number of factors such as regulatory frameworks and house prices.

Given its high house prices, London can almost be considered a market in itself, and many lenders will have different criteria for London properties that you may not have encountered on other cases. For example, they might relax restrictions on proximity to commercial premises. Given the nature of London's property landscape there may also be considerations that surface that you may not necessarily encounter on the majority of your other cases, such as restrictions surrounding listed properties and maximum floor levels on high-rise buildings.

In addition, Northern Ireland currently has a limited number of providers available and while there are some providers in the market, it is worth bearing this in mind when talking to prospective clients wanting to borrow against properties in that area.

Scotland, meanwhile, has different legal procedures, lending criteria and procedural framework, all of which are worth familiarising yourself with. Scotland has a very different legal system with property matters, and has two registers running alongside each other: the Sasines Register and the Land Register of Scotland. As properties in the old Sasines Register are dealt with either on sale, purchase and also equity release, any property which is currently in the Sasines register will require to be registered in the Land Register of Scotland by way of a Voluntary Registration form. It is not currently possible to do a Home Reversion plan in Scotland (2020).

The solicitor acting for the client in the matter will draft a Voluntary Registration form and forward it to the solicitor acting for the equity release firm, and this can incur additional fees. As is standard practice across the UK, as part of this process any names currently on the title who may have passed away will be required to be removed and evidence of their death will be required such as a death certificate.

Closing the fact find meeting

Once you have the information you need, some advisers will ask the client to check and then sign the fact find to confirm it is an accurate representation of their circumstances. In all cases, the date on the fact find must be before the date that advice is given. Many advisers also arrange for a copy of the fact find to be provided to the client as well as being kept on their own records. Other advisers reproduce key elements of the fact find in their suitability letters which contain their recommendation – attitudes, priorities and alternatives, for instance.

It is important that when you close the meeting, you set out the next steps and agree a way forward, managing client expectations. You will need time to prepare a recommendation and will then need a further meeting with the client to talk through that recommendation.

You will need to consider:

- How long you will need between meetings – leaving enough time to ensure you are not rushed but bearing in mind the client's timescales
- When clients are potentially vulnerable to making a knee jerk decision
- Health issues and pause in between meetings for reflective time for the client
- Will you send anything to the client before the next meeting?
- Does the client need to do anything before the next meeting – for example obtaining any missing information or looking into the possibility of grants?
- Will the client want anyone else present at the meeting, or alternatively would they like you to talk to anyone on their behalf before that meeting?

Section 4

Completing the advice process

Contents

The Adviser Guide to Equity Release is for guidance only. Advisers must always refer and adhere to the regulatory regime set out in the Financial Services and Markets Act 2000, and the FCA Handbook. Use of this guide does not alleviate any responsibility or obligation to follow the regulatory regime set out in statute and secondary legislation. For more information on regulatory standards, please contact the Financial Conduct Authority, or visit their website www.fca.org.uk The Equity Release Council will not be held responsible for regulatory breaches incurred by firms relying on this guide for FCA compliance purposes.

Analysis

Analysis of fact find

In any advice process, the advice given can only be as good as the information gathered in the fact find, your understanding of the client's objectives and your analysis of the data you collect. This is equally true of equity release, but there are some crucial differences and points to consider. You will often end up with several requirements from a client, but unfortunately there is unlikely to be one product that can deliver everything on your client's wish list. Your job is to consider their requirements and generate the solution that best meets their needs.

Find out what you need to know in the **'know your process'** module of the competency framework. **www.equityreleasecouncil.com/competency-framework/**

Members can find the checklist and good practice guide in the adviser toolkit **www.equityreleasecouncil.com/adviser-toolkit**

Client requirements

As we saw in section 3, each client will have their own priorities and may need to consider which elements they are willing to trade-off to achieve their top priorities. There are many different criteria that may require consideration.

Your client may want the cheapest deal in terms of the rate and fees.

They may be looking for the security of fixed early repayment charges (ERCs).

They may wish to leave an inheritance, in which case a product that offers an equity guarantee or a means of servicing the interest may be appropriate.

Flexibility to take more cash in future may be important, so avoiding restrictions on future drawdowns could be important.

They might need the largest cash sum available overall, so a product offering a high loan to value could be most suitable.

Your client may want to take an initial lump sum but with a facility to take more later, so a drawdown product may be the best solution. Here, you'll need to think about the right facility for their needs as larger facilities may attract higher interest rates on some products.

All of these features are available in the market but not necessarily on the same product or even from the same provider. You need to consider what is the most important and which product satisfies the most important requirements.

Depth of advice

A personal recommendation has three elements:

- You must give advice relating to the merits of the client entering into a regulated lifetime mortgage or home reversion plan
- The advice must relate to a specific product
- The advice must be given to a specific person in the capacity as borrower or potential borrower (or reversion client) or Power of Attorney

In order to establish suitability of the equity release contract, you must ensure that the benefits to the client outweigh any adverse effect on:

- The client's entitlement (if any) to means tested benefits
- The client's tax position
- Repaying unsecured debts and replacing them with a long-term secured debt

  And

- That any alternative methods of raising the required funds have been investigated, discussed and discounted

As you can see, compared to traditional mortgages, equity release is a much more involved advice process. As an adviser, you have to take into account the client's current financial status, including their income, existing savings and investment holdings (if any) or tax position – including potential inheritance tax liability and potential entitlement to State benefits. These wouldn't necessarily feature in the advice process for a conventional loan.

State benefits are very important in the equity release sector. Some people who initially consider equity release turn out to be entitled to state benefits that actually address their needs and defer the need for the release. MCOB says that before you make a recommendation for an equity release solution, you should consider the potential impact on the client's entitlement to means tested benefits.

If you lack the necessary knowledge of state benefits to make this determination, you are expected to refer the client to an appropriate source of information such as Money and Pensions Service. Fortunately, there are several organisations that provide access to state benefit checking software such as Entitledto. Exploring means tested benefits and helping clients is a real example of client fair treatment in action.

When selecting a product for the client, it won't always be the cheapest product, or the product that comes out top on a research report that represents the most appropriate solution. This is because the default placement is likely to be either rate or loan to value derived and may not match your client's priorities closely enough. When rates differ by marginal basis points and loan to value rates differ by only one or two percent, it is most important to consider the whole offering and solution that proves 'best advice' rather than just this one particular aspect. Again, this is why a full and detailed fact find is so important. Additional features, benefits and future needs may be more important than interest rates and these additional options may increment the interest rate.

It is recommended that one of the sections you cover in your fact find is 'alternatives to equity release.' When you make your recommendation, you should take into account the client's responses to these questions. The FCA expects advisers to consider and discount other solutions like downsizing or taking in a lodger to generate additional income, before making a recommendation for equity release.

Example suitability letters covering these aspects can be found in the Adviser Toolkit that supports this document, but it is up to you to keep them up to date and note any changes that the FCA requirements may bring.

Key point

One thing to be careful about when analysing research is that some providers quote monthly rates and others quote annual rates, so be careful to compare on a like for like basis.

Useful resources on benefits for use with clients:

1. Department of Work & Pensions (DWP) – Benefit and Pension Rates https://www.gov.uk/government/publications/benefit-and-pension-rates-2020-to-2021/

2. Age UK https://www.ageuk.org.uk/information-advice/money-legal/

3. Money Advice Service (MAS) www.moneyadviceservice.org.uk/en/categories/benefits

Research

Range of products

Depending on your business model, you may be able to offer the products of all those providers that deal through intermediaries, or you may be restricted to dealing with the products of a limited range of providers or even a single provider. As long as the client is fully aware of the limitations and restrictions to your advice and nature of any restriction, and this formed part of your initial disclosure, this is perfectly acceptable. Whatever range of products is available to you, you should seek to provide the client with the most appropriate product for their circumstances within this range. It is worth noting that there may be special terms available for some products through your network or mortgage club and you should look out for these.

Research software

Research cannot be undertaken without an appropriate sourcing system, and there are several available such as Iress The Exchange, Assureweb, Advise Wise or AIRsourcing. The majority of lifetime mortgage products and home reversion plans are included on these platforms. MoneyFacts or Defaqto are also useful tools, but you should be aware that they are only updated on a monthly basis.

It is important that you find the software that works best for you and that you learn how to interrogate it effectively to match your clients to the most suitable product. Whichever route you take, you should make sure you take advantage of training opportunities to ensure you are fully familiar with its operation. It is important to retain your research on file to validate your advice. Sourcing systems are a tool that need to be combined with the advisers, market and product knowledge.

Your own knowledge

As you develop in your role as an equity release adviser, you'll develop a good understanding of which providers offer which features and also the lending criteria upon which different lenders base their decisions. The better you understand these, the easier you'll find the advice process. For instance, if a client has a property with a particular construction type that you know is only going to be acceptable to a very limited range of lenders, you will be mindful of the product features offered by those lenders. There is no point in talking a client through all the different features they might want, only to then tell them that these are not available from any lender that will accept their property.

Obligation of the adviser

To reach the point where you are able to make a recommendation to your client you will have:

- Gathered facts regarding the client needs and circumstances
- Considered the potential impacts on State benefits the client may experience by taking equity release
- Looked at alternatives such as downsizing, applying for government grants or seeking alternative sources of funds or other financial products
- Considered best advice and looked at wider options beyond equity release products
- Where appropriate, considered whether a lifetime mortgage, home reversion plan or other mortgage product is most appropriate to the client circumstances
- Researched the marketplace for a product that meets these requirements

You have an obligation to recommend the most suitable solution for your client and if you are recommending a product, you must take into account the needs and preferences of the client.

Lifetime mortgage or home reversion plan?

If you offer the full range of equity release solutions, part of your recommendation will involve choosing between a lifetime mortgage or home reversion plan. The first thing to remember is that your firm or network must be authorised for the type of plan you intend to recommend.

This means considering things like:

- Whether the client's property and their personal objectives meet the respective eligibility criteria for the regulated lifetime mortgage contract (for example, the amount that the client wishes to borrow, or the loan-to-value ratio) or a home reversion plan
- The client's preferences for their estate - for example, whether the client wishes to be certain of leaving a bequest to their family
- The client's health and their views on life expectancy
- The client's future plans and needs – for example, whether they are likely to need to raise further funds whether they are likely to want to move house.
- Whether the client has a preference or need for stability in the amount of payments (where payments are required) with regard to the impact on the client of significant interest rate changes in the future
- Whether the client has a preference or need for any other features of a regulated lifetime mortgage contract or a home reversion plan
- Whether they wish to make payments
- How they feel about property ownership
- Their attitude towards compound interest and the long-term risk to their estate

One further consideration is attitude to risk – home reversion plans carry a different risk than lifetime mortgages.

For example, if the client dies or goes into long term care soon after taking out a home reversion plan, without an early vacancy guarantee, the cost would be much more expensive. A 100% home reversion plan on a £250,000 property would get a 65 year old in the region of £100,000. As this £100,000 was for 100% of the property, if the client dies the next day it would be a very costly transaction for the estate, unless an early vacancy guarantee was added to the plan. If the client feels that they will live a long time, then this cost becomes closer to that of lifetime mortgages.

Although the majority of client discussions result in a lifetime mortgage recommendation, it is important to recognise the circumstances where a home reversion plan might be the most appropriate solution for the client's needs. Remember, the client will sell all or part of their home with a home reversion plan but this method of capital raising does not attract compound interest. It may be a good solution for a client who cannot secure a lifetime mortgage due a restrictive property.

Generic information

It is possible to provide a client with generic information regarding equity release solutions but if information is given relating to the specific amount the client wishes to release, you must tell the client that they have the right to request an illustration for any regulated equity release contract the firm is able to offer. You must also give information on the product range you are able to offer.

For example, the written statement "you can generally borrow up to 27% of the value of your property on most lifetime mortgages" is permitted. However the written statement "you can borrow 27% of the value of your property on the XYZ Lifetime mortgage" would require you to inform the client of their right to request an illustration.

Suitability

Suitability reports

It is important that you present your recommendation in a clear and accessible format, being mindful of the potentially vulnerable nature of clients. Although not regulatory mandated, it is considered good practice and is contained within the Equity Release Council's rules and guidance and adviser checklist to present your recommendation in the form of a suitability report.

This not only provides a clear and permanent record of the advice given, but also meets the FCA requirements for record keeping which requires firms to keep adequate records of:

- The client's information, including that obtained during the fact find process
- The reason why you have concluded the advice meets the FCA's suitability requirements

These records should be kept for at least three years from the date on which advice was given, though in practice records are generally kept for much longer given the long-term nature of the contract.

Some advisers like to produce the report before meeting the client to present their recommendation. In this instance the report is often used as the basis for the presentation meeting. In other cases, the report follows on after the presentation meeting. Increasingly, compliance departments are asking for pre-sale sight of the report so they can check the advice before it reaches the client.

Content of suitability reports

The suitability report is arguably the most important document issued to the client. It will confirm to the client not only why recommendations have been made, but also why any recommended products are considered suitable to the client's circumstances (both present and future) and how objectives will be achieved as a result of the recommendations.

A good suitability report will be highly personalised and avoid standardised text. It will make three things quite clear:

- Why equity release is right for the client
- Why the recommended release amount is the right amount for the client to release
- Why the recommended product is the right product for the client's needs

It is highly probable that a client, if asked, could very well explain why a contract was set up, in the days or weeks after receiving a formal offer. It is much less likely that the same client could do this, some 2 years or more after the event, without referring to the appropriate suitability report.

A high-quality suitability report will contain enough information and can be phrased in such a way to allow that same client or their family to read through it again, irrespective of the time lapse, and immediately understand what product they have and why they have it.

Members can find examples of suitability reports in the adviser toolkit
www.equityreleasecouncil.com/adviser-toolkit

When putting together a suitability report, it is best practice to cover all of the following areas:

- The client circumstances that are resulting in a recommendation for equity release – be as specific as possible
- How long the client has been thinking or planning to raise capital for their objectives
- Who attended the meeting/s
- How the meeting was conducted
- The reason why you have recommended a specific product for your client
- The benefits of any capital / income generated from the lifetime mortgage or home reversion plan must outweigh any adverse effect on the client's entitlement to means tested benefit and / or the client's tax position
- That you have provided clients with the opportunity to seek expert tax and benefits advice before they entered into a lifetime mortgage or home reversion plan
- The reasons why alternative methods of raising the required funds (including downsizing, traditional interest only mortgage and local authority or other grants) are proven to be less suitable
- The obligations on the client – such as maintaining and insuring the property

You should make your recommendations in the knowledge of the client's situation and attitudes toward:

- The impact on their estate of the lifetime mortgage
- The client's health and their life expectancy
- The clients potential vulnerability and what arrangements were made to accommodate them, for example, several meetings on several occasions
- The client's future plans
- Reduction in asset (property) value for later use such as long-term care funding etc

Additionally you should also:

- Consult with other family members where appropriate and at the client's discretion, and reference it in your suitability report, including reasons why family members were not consulted
- Consider any ancillary recommendations such as writing a will, setting up power of attorney or considering a funeral plan
- Advise that independent legal advice is mandated by the Equity Release Council.

Fees and costs associated with the recommendation

You may wish to only recommend schemes where the lender is a member of the Equity Release Council. Reasons for using a non-member and the particular standards and protection they might offer should also be documented.

If you have insufficient knowledge of the range of alternatives to a regulated equity release contract, or the means tested benefits, tax allowances and debt counselling, remember that you should refer the client to an appropriate source for such information and possibly delay your presentation until you can be certain of the advice you are recommending.

The outcome of the discussions and the results of any external investigations such as a review of means tested benefits should be recorded in the suitability letter. Prominence of relevant information can play a key role in ensuring that a communication is clear, transparent, fair and not misleading. Where this is the case, the adviser must consider prominence in the context of the communication as a whole. Use can be made of the positioning of text, background, and text colour and type size to ensure that specified information meets the requirements of the rules.

Consequently, suitability letters (and other client correspondence) must not be formatted in any way that diminishes the prominence of the requirements in the previous sections, or any other FCA regulatory requirement. Inappropriate wording (i.e. wording of no relevance to the client circumstances) within the suitability letters can also cause the prominence of FCA regulatory requirements to be diminished. Ultimately, the suitability report should be personalised and relevant to the client, adding the soft facts, hard facts, alternatives, and emotions that you captured in the fact find and replicating them in the suitability letter, so that the client and their family can retain a permanent reminder of your advice.

A copy of the suitability letter should be printed on headed paper and sent to the client to sign and date. The original suitability letter signed and dated by the client, should be retained on your client file and a copy sent to the client.

Presentation
meeting process

The nature of equity release advice means that it usually involves two or more meetings with the client. As with any two-meeting process, at the beginning of the second meeting it is important to reaffirm the discussions from the first, to remind both parties of what was agreed and to set the agenda for the second meeting. Again, it is a good idea to ask the client what they are looking to get from the meeting – this will give you a good indication as to the client's mindset. For instance, are they looking for information to take away and consider or wanting to 'get the ball rolling' as soon as possible?

It is also important to check for any changes, as in many instances the clients will have spoken with their family and / or revised what they need their money for, and this may change the advice you are about to give.

When presenting the recommendation, some advisers use the illustration as the primary source of information, others prefer to use their suitability report for the majority of the recommendation and follow up with more technical detail from the illustration.

However you choose to present your recommendation, it is important to reaffirm how the features and benefits of the recommended equity release product meet the client's needs.

Illustrations

The FCA requires all advisers to give consumer product information in a set format called a Key Facts Illustration (KFI) or in limited cases a European Standard Information Sheet (ESIS). An ESIS is issued for a regulated mortgage contract falling under the Mortgage Credit Directive. Although lifetime mortgages that fit the FCA definition are exempt from the MCD, the definition of lifetime mortgages used in MCD is slightly different. For lifetime mortgages and home reversion plans that meet the FCA definition, you will issue a KFI.

This illustration must be issued at specific stages of the equity release sales process and it must be provided at the point of recommendation and fully explained to the client before the application for the recommended mortgage is submitted. You should provide either a paper copy or an email document that can be printed.

You must provide a client with an illustration in the following circumstances:

- When you recommend a particular lifetime mortgage or home reversion plan
- When you provide written information that is specific to the amount that your client wishes to borrow and the client requests an illustration
- If the client requests written information that is specific to the amount that they wish to borrow

The illustration should clearly show all fees, including the broker fee that you charge. It should also set out the amount of commission that you will be paid by the lender. You must not complete an application, or accept any payment that would commit a client to a particular product, until the client has received and reviewed the illustration.

The FCA review suggested there was an "over reliance" on the KFI and suggested this is supplemented with other calculator tools or supporting information so the checklist recommends this as best practice to back up the KFI.

Members can find examples of KFI reports in the adviser toolkit
www.equityreleasecouncil.com/adviser-toolkit

Accuracy

If you obtain an illustration from a lender for a client, you are responsible for its accuracy, but you can reasonably rely on the information given to you by a lender to be accurate. A tolerance of 1% or £1 (whichever is the greater) applies to some figures on the KFI, where you do not get them from the lender. You can rely on a third party, such as a mortgage sourcing system provider, to provide you with KFIs that meet this tolerance and still comply with the rules on accuracy. However, you must be able to show that it was reasonable for you to rely on this information. To do this, you must conduct a test of reasonableness on every KFI from a mortgage sourcing system provider to, as far as you are able, verify that the KFI is accurate.

Content of the KFI

You must have a good understanding of the content of the illustration before presenting it to the client and you should be comfortable navigating through the document, explaining key information and answering questions. It is particularly important that you are confident in explaining the more complex elements in a client friendly manner – for example how gilt-based early repayment charges work or how interest compounds over time.

Agreeing action...

Having presented your recommendation and answered the client's questions, you need to agree next steps. Often, this simply requires you to ask the client if they are happy to proceed. A simple question like "would you like to go ahead?" or "shall we complete the paperwork?" gives the client the chance to either agree or raise any concerns. In many cases the client will want to take the recommendation away and think about it before proceeding. This is especially true where family members have not yet been involved but the client would like to discuss the recommendation with them before proceeding. It is important to proceed at the client's own pace and not to put them under pressure. You should check that there are no areas that the client needs explaining in more detail and handle any objections where appropriate. Having done this, you should then agree what happens next – whether this be a follow-up telephone call or a further meeting, before closing the meeting.

Remember that it takes approximately three months to complete an equity release product giving the client plenty of time to change their mind, but remembering that they will incur costs, so it is better to deal with any concerns or issues before completing an application.

Remember!

If a recommendation is made over the telephone, then it is best practice to send a written suitability letter and KFI within five working days.

Members can find information on objection handling in the adviser toolkit
www.equityreleasecouncil.com/adviser-toolkit

Rejected recommendations

If a client rejects your recommendation you are able to recommend another regulated mortgage product as long as it meets the client's stated needs and preferences. In other words, providing you are happy to stand behind the alternative solution, you may recommend this alternative course of action. In the suitability letter you must record the fact a secondary recommendation has been made, the reasons why and acceptance of the client.

If a client rejects all the recommendations you have made, it would be considered best practice to close your equity release advice-related dealings with that client and mark the file accordingly.

Execution only business should not be considered. Equity Release Council member firms will not accept business on an execution only basis, in any circumstances.

Next steps

Once the client has accepted your recommendation and agreed to make an application, you'll need to explain what happens next. Although familiar to you, the process post-application is likely to be a mystery to the client. It is really important that you take the time to explain what happens from here.

This means covering things like:

- What documents will be sent to the provider and what the provider will be looking for
- The role of the surveyor and the differences between an equity release valuation and an estate agent valuation
- The role of the solicitor in terms of conveyancing and protecting the client's interests
- Any further information that might be required from the client
- Who to contact with queries

Some of these we'll look at in more depth in the next section.

Application and beyond

Client application

Assuming that the client is happy with the recommendation made, the next step will be to submit an application.

This will require them to (as appropriate):

- Provide proof of identity and proof of residency
- Pay any valuation or service fees applicable

You should supply your clients with the following:

- Copy of client signed fact find (marked as client copy)
- Client fee agreement (marked as client copy)
- Copy of KFI for client's records (marked as client copy)

Ideally, a suitability letter should be issued prior to the client sending back an application. The client should sign and send back the suitability letter alongside the application to evidence that they have received and understood your recommendation. If the results of the valuation report necessitate that your advice changes, this can be evidenced in a secondary letter, sometimes called a material change letter, to evidence the change in circumstances and the resulting recommendation.

Disclosure at offer stage

Lenders may need to ask you to give information to help them prepare the offer. For example, they may ask about the level of service provided, or any fees that you have charged. A lender must provide an offer document which complies with the rules when making an offer for an equity release product (whether it be a home reversion plan or lifetime mortgage). The offer must include an updated and suitably adapted Key Facts Illustration (KFI) as an integral part of the offer.

Valuation

Once the application has been submitted, the lender will instruct a valuation. It is useful for you, as the adviser, to manage the client's expectations about this valuation. In the case of a lifetime mortgage, the purpose of the valuation is primarily to ensure that the property is worth enough to represent adequate security for the loan. This can result in a valuation somewhat lower than the client's own estimate of the property's worth, and is based on property criteria.

Your own knowledge of lending criteria can prevent nasty surprises arising at valuation stage based on construction type or environmental factors.

Working with the solicitor

The solicitor plays a vital role in the equity release process. These notes are designed to provide you with practical guidance as to how you can work with your client's solicitor for equity release.

Although it is likely that you will have already covered the need for a solicitor, on confirmation from your client that they have accepted your recommendation and they wish to proceed with the equity release, you need to ask them which solicitor they wish to use. They may decide to use a solicitor already known to them but not known to you.

The solicitor should be experienced in equity release and have knowledge of conveyancing practice, private client law and welfare benefits law in order to properly and independently advise the client on the suitability of a scheme.

There is a growing number of panel law firms now registered with the Equity Release Council as members that are likely to have a greater understanding of both the law and principles required for properly advising on these schemes. As a result, advisers may well choose to direct their clients to look at that directory if they need to source legal counsel.

The Solicitors' Regulation (SRA) Authority also produced the 'Solicitors Code of Conduct' (see SRA website) which includes the following extract:

Chapter 1: Client care

Outcomes

You must achieve these outcomes:

O(1.4) you have the resource, skills and procedures to carry out your clients' instructions.

O(1.5) the service you provide to clients is competent, delivered in a timely manner and takes account of your clients' needs and takes account of the clients' best interest.

Therefore, the SRA have clearly indicated that equity release requires more than conveyancing knowledge, and if the solicitor lacks the competence to deal with an equity release instruction, then they should refuse to act or be partnered with a firm who can provide the additional area of expertise.

It is therefore suggested that the client or their representative contact the proposed solicitor regarding their intentions as follows:

- They wish to proceed with a lifetime mortgage
- They wish to instruct the solicitor to act for them
- To seek confirmation that the solicitor is happy to act for the client and that the solicitor has had experience in dealing with equity release conveyancing
- If known to the adviser, who the likely lender solicitor may be and whether there are any specific requirements, they will expect. For example, do they have preferences for who is responsible for obtaining redemption statements or carrying out comprehensive unregistered deeds checks?

It is also important that the client is made aware of the fees to be charged for the conveyancing and any other potential for fees chargeable for other aspects of legal advice. Normally these would be disclosed to the client when the initial discussion regarding the instruction takes place.

There may, however, be a case where, while not a direct party to the mortgage, one of the clients is an occupier but not named on the deeds, but lack the requisite mental capacity to sign the occupier's consent form. In that instance, a registered attorney would be able to sign on their behalf.

The application for continued drawdown may also be impacted by any future lasting power of attorney being registered. This is covered primarily in the terms and conditions of the plan, and both solicitors and advisers should be conversant with this specific matter.

It is also recommended that the adviser confirm who the main case handler will be and obtain their direct email address and contact number. This will ease the process of providing updates between parties and easing the process as a result.

Once the solicitor is appointed, the adviser may wish to confirm with the solicitor the advice process, and the offer period. In addition, they may want to refer to any non-standard terms and any special conditions in the offer and ensure that the solicitor is happy with completion of the solicitor's certificate.

As part of this process advisers may wish to devote attention to:

- Developing an understanding of any target completion date within the offer term (as thereafter there may well be changes to interest rates outside the offer period)
- Ensuring the solicitor's certificate is signed and returned to the provider's solicitor before completion, along with the completed schedule of requirements
- Confirming that all terms and conditions outlined within the offer document and terms and conditions documents have been met
- For freehold properties, ensuring that documents disclosing good and marketable title to the property are forwarded
- For leasehold property, ensuring the client has the right to assign the lease and that the residue of the term of the lease is more than 80 years

It is also worth advisers familiarising themselves with The Office of the Public Guardian (OPG's) code (www.gov.uk/opg/mca-code), Chapter 7 of which sets out what attorneys can do and what restrictions there are on their powers. Paragraph 7.36 sets out a list of possible items that an attorney might be able to do, but this does not include the ability to contract to or take out an equity release.

If an attorney wants to take equity release, they will need a specific authority. Someone acting under a registered Property and Financial Affairs Lasting Power of Attorney, or Enduring Power of Attorney wouldn't automatically be able to sign the papers on behalf of the donor. Such a matter would require a separate application to the Court of Protection, whereby the Court can issue a direction giving that attorney the jurisdiction to legally act.

Members can find information on client referrals in the adviser toolkit
www.equityreleasecouncil.com/adviser-toolkit

Completing the transaction

Completion of the contract marks the end of the first stage of the product lifecycle, and the culmination of the initial advice journey. Your role as adviser is likely to be limited at this stage, with the provider and the solicitor taking the lead. You still need to understand the full process, but more detailed queries are likely to be referred to the client's solicitor.

Asking for referrals

Referrals are a cost effective and efficient method of increasing your client base and have the potential to greatly expand your business. Referrals made by existing clients are invaluable.

People who have been referred by existing clients often approach a meeting with the desire and expectation of conducting business. Furthermore, the referred client will have been told by their referrer that you offer a worthwhile product with an exemplary service. This enhances your credibility and will help to establish an immediate trust and rapport between you and the new client.

The best time to ask for these referrals is after the transaction has completed and the client has received their funds. At this point they've felt the tangible benefits of your advice and are likely to be more receptive to the idea of putting other people in touch with you for the same.

Post completion relationships

Your relationships with your clients do not stop at the completion of their initial plan, as their journey through later life and the equity release process is no longer a one-stop affair.

Many plans now offer additional features such as downsizing protection, change of circumstance frameworks and periods when early repayment charges do not apply on first death. Therefore, it is vital to familiarise yourself with these opportunities to further aid your client and build long standing relationships. In addition, it is possible that your clients will want to make alterations to their home, so it is advisable to make yourself aware of the processes and limitations for facilitating this on their lifetime mortgage plan.

It is also worth bearing in mind the possibilities to advise in other areas off the back of the initial plan. Gifting for a younger family member's house deposit, for instance, can open up avenues in relation to advising on the property purchase. Other examples include advising on care-related matters, or on drawdown pension options.

Where your service includes further reviews, you should be clear with the client who is taking responsibility for initiating those reviews. Will you contact the client periodically, or simply be available if they need further assistance? Will you offer to give the client further advice if they are considering taking a further drawdown and, if so, how will this advice be funded? All of these things need to be considered and discussed.

Your next steps...

We hope this guide has given you food for thought and provided you with some useful pointers that will help you work successfully in this market. The equity release sector is incredibly supportive, and you'll find lots of resources available both from the Council and from providers to ensure you remain up to date. Make sure you take advantage of these resources so that you can continue to provide your clients with the most up-to-date technical guidance.

Call: 0300 012 0239

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For information about joining the Council visit
www.equityreleasecouncil.com/join-us

Equity Release Council

Check that your chosen plan will meet your needs if you want to move or sell your home or if you want your family to inherit it. Always seek qualified financial advice.

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