

Social Justice and Regeneration Committee Review of Housing for Older People

Response by

to the Welsh Assembly Government

19 September 2003

Introduction

1. CML Cymru welcomes the opportunity to contribute to the Social Justice and Regeneration Committee's review of Housing for Older People. The Council of Mortgage Lenders (CML) is the representative trade association for the mortgage industry. Our 143 members comprise banks, building societies, insurance companies and other specialist mortgage lenders, which together represent around 98% of the assets of the mortgage market. Our members lend to the residential market, buy to let and social housing markets. CML Cymru represents those lenders actively lending in Wales.

Background

2. The population of the UK is ageing, more people are living longer and living alone. This is no less true in Wales than in other parts of the UK. A recent report for the Welsh Assembly Government '*The age related housing and domiciliary care and support requirements of older people in Wales*' set out a number of conclusions about older people in Wales and the need for policies to address their needs. The key demographic conclusions relevant to this review are:
 - The number of older people in Wales is projected to increase both in absolute terms and as a proportion of the overall population. The number of people over the current retirement age will rise from 588,000 in 2000 to 869,000 in 2040, an increase of 48%. The numbers aged 75 or more will rise by 176,000 or 74% to 418,000. Numbers aged 85 or more will grow even more steeply by 70,000 or 114% to 132,000.
 - The number of households with a household representative aged 65 or more is projected to increase by 85,000 or 25% over the 2001-21 period to 428,500. By 2021, households with an older person as representative will account for 32% of all households in Wales, an increase of 29% from 2001. Of these, 146,000 households (34% of all older households) will be headed by a person aged 75 or more. The increase in household heads aged 75 or more will accelerate more rapidly after 2021.
 - Projections suggest that 51,400 older households (12% of the total) will be headed by a person

aged 85 or more in 2021, an increase of 18,400 or 56% over the present level.

- These very old households are the most likely to have significant housing and care needs.
- Most older people live either alone or with other older people or with those close to retirement age. The tendency to live alone increases sharply for the over 75 age group where almost half live alone.

1. These figures are supported by research recently published by CML '*Who's Counting? Demand for Homes in Wales 1998-2016*'. This showed that:

- 86% of couples aged 60-64 in 1997 were owner occupiers, 82% of those aged 70-74 and 79% of those aged 80-84. As households age they tend to take their tenure with them. Therefore, by 2007 the proportion of couples aged 70-74 who are owner occupiers will have risen from 82% to 86% and by 2017 from 79% to 86% at ages 80-84.

1. The research for the Welsh Assembly Government also found that old people in Wales are more likely than younger people to experience poor housing conditions, to lack modern amenities or facilities in their homes, and to need adaptations to enable them to live independently. Findings included:

- Some 12% of households headed by a person aged 75-84 and 13% of those aged 85 or more lived in dwellings which were unfit for human habitation in 1998. In absolute terms this represented 17,500 older households.
- Older private tenants and outright owners aged 85 or more, were the most likely to experience poor conditions.

1. Wales has a higher level of home ownership than the rest of the UK - 72.2% as opposed to 70.1% in England, 63.1% in Scotland and 70.9% in Northern Ireland. This is predicted to rise to 77% by 2021. Older home owners bear the main responsibility for keeping their homes in good repair and installing facilities such as central heating and insulation.

2. Despite being owners, many older people have relatively low incomes and limited savings so face major difficulties in coping with repair, improvement and adaptation costs. CML research published in December 2000 *Half the Poor: Home Owners with Low Incomes* showed that:

- Home owners are 57% of all households within the lowest income decile (measured before housing costs) and 42% when measured after housing costs.
- Home owners are 50% of all households not claiming Income Support, but with incomes below Income Support levels.

1. This work is currently being repeated by the University of York to consider home owners with low incomes in Wales.

2. Older people are also significantly more likely to suffer from a long-term illness which limits their activities and requires some form of care, support or adaptation to their dwelling. Detailed

figures on this are provided in the report for the Welsh Assembly Government. It is also the case that poor housing can be linked to poor health.

Housing, Health and Well Being in Llangeinor: Garw Valley carried out by the School of Social Sciences and the Regeneration Institute, Cardiff University for Bridgend County Borough Council published in 2002 is an excellent example of a health impact assessment. This covers in some detail the impact of various factors, including an excellent summary of the potential impacts of poor housing on health.

3. These factors pose significant challenges for the Welsh Assembly Government in providing housing for older people in Wales and addressing the significant disrepair problems they face, particularly in the private sector.

Housing grants and loans

4. Public sector funding for home improvement grants has been declining. Although, generally, Wales has been more generous with home improvement grants, the amount spent has declined from nearly £100m in 1999 to £78m in 2001. The previous local authority grant regime has been replaced by a broad power for local authorities to provide financial and other assistance for home repair and improvement. The Regulatory Reform (Housing Assistance)(England and Wales) Order 2002 came into effect in July 2002 and local authorities had until July 2003 to put in place private sector renewal policies that set out how they intended to use the new powers.
5. There is a clear expectation that people should repair their homes from their own resources although, as noted above, older people may be in a worse position than most to do this. Equity release may be an option for some people. The research carried out for the Welsh Assembly Government identified that older home owners, especially those who own outright, have wealth in terms of the value of their home, and this can potentially be accessed to meet housing or care costs. The study estimated that the average unmortgaged equity held by an older household in Wales in 2002 was around £73,000. The research suggests that this is ample for dealing with most repairs and basic improvements but with most equity release schemes it would not be possible to withdraw all the equity available. This is explained in the section on equity release below.
6. There is also the issue as to whether owners would want to tap into this equity either because they do not trust equity release schemes or regard them as poor value for money or because they wish to preserve their equity to pass on as an inheritance. The distribution of those who have equity in their properties will be uneven across Wales, and there may be some areas where equity release is not an option. The research estimated that a quarter of older home owners have estimated equity below £36,000. It is likely that these are the households which need to spend most on repair and upgrading, limiting the scope for tapping into this resource. In assessing their local housing needs and strategies it would be helpful if local authorities could identify how much unmortgaged equity there was in their area. This would help them to assess whether equity release was a viable option in their area.

Equity Release

7. Enclosed with this paper is a briefing paper written by the CML on equity release. This provides background on the different types of equity release schemes available, and discusses current issues with equity release.
8. In terms of using equity release for home improvements, we think there are a number of issues. There needs to be a distinction between ways in which local authorities (or housing associations) might be able to offer equity release schemes and commercially available equity release schemes. Commercially available products are restricted generally to the over 60s (although one lender has a product available to those over 55) with either no mortgage or a very small mortgage, a minimum property value (£40,000 - £60,000), often a minimum loan value of £25,000 and maximum loan to value of 25%-30%. The limitation on the loan to value is important, particularly if a rolled up product is taken out, to ensure that the amount owed does not become more than the value of the property. This is why it is often not possible to realise all of the unmortgaged equity in a property. Properties that are not of standard construction are often not eligible for equity release, so this type of solution may not be suitable for some right to buy owners, for example. Some lenders will not offer equity release to properties in serious disrepair. We would also argue that equity release is often not the most cost effective way of borrowing money, particularly for small loans on a rolled up interest basis, where the amount owed can double in 7 to 10 years depending on the interest rate.
9. One way in which equity release might be available to older people for those who might otherwise be able to access a commercial product is through the Houseproud scheme set up by the Home Improvement Trust (HIT) and delivered through Home Improvement Agencies (HIAs). The Houseproud scheme offers a range of loan options including an equity release scheme backed by a lender. By delivering the scheme through HIAs, the HIA is able to help the person to identify the work that needs doing, find a reputable builder to carry out the work, supervise the work and if necessary help to access a loan for the work. The HIA will also help with any paperwork that is necessary. A number of local authorities in England have opted to join the Houseproud scheme to help them deliver their private sector renewal policies. Local authorities pay a certain amount each year to HIT to support the provision of literature, running the HIT call centre and ongoing support.
10. It may also be possible for local authorities to offer low or interest-free equity release loans, or to take an equity share in a property. A number of local authorities and housing associations are considering this approach. There are a number of issues for local authorities and housing associations to consider. If there is any outstanding mortgage on the property, the lender would want to retain first charge. In time, money lent on equity release type products would become a revolving fund as individuals die or move on and money is repaid. However, there is likely to be a long lead in time before money starts to come back and this would require local authorities to have a very long-term strategy in place.
11. If the local authority or housing association takes an equity share in the property, even on a like for like basis, there are still risks involved. Consider where a person borrows 10% of the value of the property in return for the local authority or housing association taking a 10% share of the property. If house price inflation is high a £10,000 loan on a £100,000 house might double to £20,000 over 10 years say which is an approximate interest rate to the borrower of 10% per annum. In the current climate of low interest rates this looks very high. If house prices fall, the

local authority risk losing money on their share.

12. Shared appreciation mortgage (SAMS) products are viewed with some caution by both lenders (and regulators) and indeed by consumers. Lenders face the uncertainty as to when they will get their funding back (with no income in the interim under a zero interest model) and the borrower faces the uncertainty as to what it might cost (depending upon house price inflation). Lenders have sought to overcome the difficulty of holding such assets on their books by securitising them, but it is clear there is a limited investor appetite for such products. As a consequence, there are no SAMS on the market at present. There are ways around this and clearly we have the example in Wales of Homebuy where the public sector offers an equity loan. Mortgage Express recently launched a Step Ladder mortgage where the lender took an equity stake in the property and advances a conventional loan for the remainder and we now await to see what the market demand for this might be and whether other lenders will follow. The simple point here is that this is a complex area and complexity typically adds to the cost to the borrower, and this in turn impacts upon demand.
13. There may also be tax or benefit implications of taking out equity release. It is likely that a number of the people who will need home improvement work done will be on some form of means tested benefit. Equity release may impact on that, even if the work to be carried out is essential. Local authorities and potential borrowers need to be aware of these possible impacts.
14. Last, but by no means least, is the impact of financial regulation. The Financial Services Authority (FSA) will regulate mortgages, including equity release from October 2004. Although local authorities and housing associations will be exempt from the new regime, there will be a prudential requirement on them to have in place a system comparable to that of the FSA. This may involve significant training and administration issues for local authorities and housing associations who do not have experience in these areas.

Reversion schemes

15. The Committee has also said it wishes to consider reversion schemes. Reversion schemes are where the owner sells their home or part of their home to a reversion company who allow the owner to live rent free in the property for the remainder of their life. On death, the proportion of the home sold to the reversion company becomes the property of the reversion company. As this type of scheme is not a mortgage they will not be regulated alongside the rest of the equity release mortgages (to be called lifetime mortgages) by the FSA from October 2004. The Treasury has announced its intention to consult on whether reversions should be regulated in autumn this year. However, even if the responses to this consultation are positive, it will require primary legislation to bring reversions within the scope of the FSA's regulatory regime. This means it is likely to be some time before reversions fall within statutory regulation. The industry is considering whether a form of voluntary regulation, along the lines of the FSA regulation could be introduced for reversions. These discussions are still at an early stage.

The use of private finance

16. There is a clear expectation that private finance will be available to help people carry out

necessary work on their property. This may provide opportunities for lenders. However, it has been difficult to gather information on the current use of home improvement grants and on the potential market for new loans. We already know that many lenders find improvement lending difficult where:

- a. The loan requested is very small and there is no outstanding mortgage. The time required to process a small secured loan in relation to the return on it is disproportionate. Moreover, the cost to the customer is disproportionate to the amount raised.
 - b. The loan requested is secured on a low value property and by a person with a low income.
 - c. The Consumer Credit Act (CCA) acts as a further cost and risk. Loans below £25,000 are subject to the provisions of the CCA. Lenders can 'avoid' the CCA where the loan is made in conjunction with advice from a Home Improvement Agency (or where there is an existing loan).
1. It is also evident from experience on the new regime to date that there are two key concerns:
 - a. If there are a multiplicity of schemes from a multiplicity of authorities (up to 22 in Wales and 366 in England) this will not be very attractive to many lenders because of staff training costs and legal advice/structures to develop loan agreements, for example, especially when the volume and size of loans is unknown. Individual authorities or small groups of authorities may be able to set up an arrangement with a specific lender or small group of lenders on a regional/local basis and agree a set of products/terms/procedures. However, this will restrict consumer choice.
 - b. The loan requests themselves, even if subsidy were available to cover set up costs, might be unattractive. If the underlying security is weak and the borrower has a limited debt servicing capacity (as well as the loan being for a small sum) there is no driving logic for the lender to make the loan.
 1. To date, limited research amongst lenders would suggest that, for the most part, direct loan applications, regardless of subsidy, will be unattractive to lenders. This is because the time and cost involved is disproportionate to the profit they will make on the loan and the risks they may face on that loan. There is also a question as to whether many of these consumers need to face the costs of a secured loan. As noted above lenders may be reluctant to offer commercial equity release products to those who need them for home improvement.
 2. The question then is: are there alternatives which will still result in levering in private finance? We think that lenders could make 'bulk' loans for on-lending by other bodies such as local authorities or housing associations, or even specially created Special Purpose Vehicles (SPV). We have already described the Houseproud arrangements where the Home Improvement Trust acts as an intermediary body for the lenders. A variation on this is ART Homes Ltd based in Birmingham which is a SPV acting as a lender for home improvements in the area. This has attracted private finance.
 3. The CML, together with individual lenders, has been discussing with the National Assembly for Wales the possibility of setting up a SPV for home improvement lending in Wales. This might be called the Welsh Home Improvement Lending Agency (WHILA) and could possibly attract bulk funding from lenders. Discussions have not progressed very far, mainly because of uncertainties

about the potential size of the market and demand for loans.

Conclusions

4. In terms of financing the improvement of the housing of older people, the effectiveness of the new powers that local authorities have will largely depend their willingness to engage with the private sector and change the way they consider private sector housing. Evidence from a local authority survey carried out earlier this year by the Centre for Urban and Regional Studies (CURS) at the University of Birmingham for ODPM/WAG showed that Welsh local authorities were not planning significant change in their policies.
5. It will also partly depend on the willingness of local people to take out private finance rather than waiting for a local authority grant. There is little evidence to date as to whether people would be prepared to do this, and requires further investigation.
6. It will take some time to develop private finance solutions to the problems of private sector disrepair, and we would support the involvement of the National Assembly in Wales in developing an all-Wales solution. Because of the difficulties outlined in this paper in using private finance in this area, we believe it will be necessary to use public subsidy to support and develop workable solutions. We would, therefore, recommend that the Committee support further work by the National Assembly to develop WHILA. WHILA might consider a range of funding options, not just equity release. For some people, grants will be the only option, and we would like to see a continuing recognition of the importance of grants as a tool to deal with home improvement or adaptation.
7. We also commend to the Committee the recommendations of the research *The age related housing and domiciliary care and support requirements of older people in Wales*, particularly those related to data collection, as this will help inform policy debates and solutions.

Further contact

8. This response has been prepared by the CML Secretariat in consultation with members. Any queries or comments should be addressed to Jackie Bennett (Jackie.Bennett@cml.org.uk), tel:020 7440 2261, fax: 020 7440 2262 in the first instance. We would be very happy to give an oral presentation in support of our written submission, if that would be helpful.

References

The age related housing and domiciliary care and support requirements of older people in Wales Welsh

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Who's Counting? Demand for homes in Wales 1998 –2016, Council of Mortgage Lenders, London July 2003

Housing, Health and Well Being in Llangeinor: Garw Valley School of Social Sciences and Regeneration Institute Cardiff University, 2002

Half the Poor: Home Owners with Low Incomes Council of Mortgage Lenders, London, December 2000