

Equity release

At the end of this unit, candidates should be able to understand the:

- principles of equity release and the types of schemes available;
- suitability and affordability of the different types of equity release products;
- risks to the consumer associated with equity release;
- application of suitable equity release solutions according to the circumstances of different consumers.

Summary of learning outcomes	Number of questions in the examination*
1. Know the definition of equity release, home reversion plans, lifetime mortgages and alternative methods of equity release/capital raising	1
2. Understand the principles of equity release, the types of equity release schemes available and the circumstances for which such schemes might be appropriate	7
3. Understand the types of consumer at whom equity release is targeted and their personal requirements, wants and needs	3
4. Understand the circumstances in which equity release may be appropriate and how these are influenced by consumers' preferences and financial needs	5
5. Understand the impact on consumers' future options	5
6. Understand key features, relative advantages and disadvantages of different types of equity release arrangements and principal alternatives	8
7. Understand the rules relating to State benefits and taxation, the sources of information and specialist advice regarding the implications on these of entering into an equity release arrangement	4
8. Analyse the suitability and affordability of the different types of equity release plans and their principal alternatives for different types of consumer	6
9. Assess the advantages, disadvantages and potential risks to consumers associated with taking out equity release and when these might arise	6
10. Assess the relative levels of risk for different consumers taking account of their individual circumstances	5
11. Apply suitable equity release solutions according to the circumstances of different types of consumer	25

*The test specification has an in-built element of flexibility. It is designed to be used as a guide for study and is not a statement of actual number of questions that will appear in every exam. However, the number of questions testing each learning outcome will generally be within the range plus or minus 2 of the number indicated.

Important notes

- **Method of assessment:** 50 multiple choice questions (MCQs) and 5 case studies, each comprising 5 MCQs. 2 hours are allowed for this examination.
- This syllabus will be examined from 1 September 2010 until 31 August 2011.
- Candidates will be examined on the basis of English law and practice in the tax year 2010/2011 unless otherwise stated.
- Candidates should refer to the CII update website www.cii.co.uk/updates for the latest information on changes to law and practice and when they will be examined.

1. Know the definition of equity release, home reversion plans, lifetime mortgages and alternative methods of equity release/capital raising

- 1.1 The definition of equity release as in the FSA Handbook;
- 1.2 The definition of a home reversion plan as in the FSA Handbook;
- 1.3 The definition of a lifetime mortgage as in the FSA Handbook.

2. Understand the principles of equity release, the types of equity release schemes available and the circumstances for which such schemes might be appropriate

- 2.1 The principles of equity release;
- 2.2 The different types of equity release schemes – drawdown equity release, monthly capital release, mix and match (part lump sum/part monthly release), shared appreciation mortgage;
- 2.3 Regulatory requirements including the FSA's Conduct of Business rules, the sales process and documentation, home reversion regulation, product disclosure;
- 2.4 Market participants and their role: providers, administrators, arrangers and advisers;
- 2.5 The rationale for regulation under MCOB and the SHIP code of practice – potentially vulnerable consumers, how mis-buying or mis-selling can occur, fair valuations, rights and liabilities as tenants, security of tenure, access to redress;
- 2.6 Features of home reversion plans in relation to other schemes;
- 2.7 How a home reversion plan arrangement may be structured including potential rental and associated charges;
- 2.8 Features of lifetime mortgage schemes in relation to other schemes.

3. Understand the types of consumer at whom equity release is targeted and their personal requirements, wants and needs

- 3.1 Types of consumer who may seek an equity release solution – those who need to realise the value of their assets; those who choose to realise the value of their assets for a variety of lifestyle reasons;
- 3.2 Requirement for capital sums;
- 3.3 Requirement for extra income;
- 3.4 Inheritance Tax Planning;
- 3.5 The suitability assessment, taking into account the purpose of the equity release and investment vehicle used;
- 3.6 Typical eligibility criteria for home reversion plans, including personal and property status requirements;
- 3.7 Implications for single and joint applicants.

4. Understand the circumstances in which equity release may be appropriate and how these are influenced by consumers' preferences and financial needs

- 4.1 How consumer needs and preferences inform and lead the process – savings and investment levels, leaving an estate on death, capital versus income, maintaining a level of income/lifestyle comparable with that of pre-retirement income, health and/or long-term care, lifestyle choices, requirements for temporary or guaranteed income, use of equity release as an alternative to trading down;
- 4.2 Investing equity released for income versus drawdown equity release;
- 4.3 Impact on net estate: saving Inheritance Tax versus costs of equity release;
- 4.4 Role of Safe Home Income Plans (SHIP) and the SHIP members' guarantee/Code of Practice;
- 4.5 Portability – implications of moving house, right to move (ability to move under house plan);
- 4.6 The importance of taking independent legal advice before completing a home reversion contract and what this means;
- 4.7 FSA requirement for firms to obtain confirmation that consumer has obtained legal advice (MCOB 2.6A.5).

5. Understand the impact on consumers' future options

- 5.1 The importance of a valid will and impact of dying intestate;
- 5.2 The effect upon single and joint occupiers – 'last survivor' basis of schemes;
- 5.3 The impact of property being owned singly or jointly; joint tenancy/tenancies in common;
- 5.4 The impact on ability to vary – e.g. change of reversion occupiers;
- 5.5 The impact on estate of sale or part sale of the property;
- 5.6 The impact on the right to move;
- 5.7 Inheritance protection guarantees;
- 5.8 The impact of shared appreciation or house price inflation guarantees;
- 5.9 Common terms and conditions – rules of occupancy, waivers and indemnities for residents other than reversion occupier, vacating property, time period for occupancy, ability to let or sub-let, maintenance provisions, need to consult with reversion provider if the occupier wishes to leave the property empty or do structural alterations etc., building insurance requirements;
- 5.10 The importance of legally registering the arrangement correctly and the provider's duty of care to ensure solicitor takes on responsibilities regarding contract issues, title, registration of lease etc;
- 5.11 Importance of taking independent legal advice before signing legal documentation and commitment to a legal contract;
- 5.12 Impact of ending scheme early or on death or need to enter long-term care (qualifying termination event);

- 5.13 Impact of plan provider's definition of entering long-term care;
- 5.14 In respect of lifetime mortgages, the impact of guarantees regarding 'no negative equity/legacy element'.
- 6. Understand key features, relative advantages and disadvantages of different types of equity release arrangements and principal alternatives**
- 6.1 The features, benefits and risks of lifetime mortgages: rolled-up interest (income, lump sum), home income plans, interest-only mortgages, drawdown mortgages, other lifetime mortgage products coming into market;
- 6.2 The features, benefits and risks of home reversion plans in relation to the individual client/potential reversion occupier – implications of equity sale, reasons why amount received under a home reversion plan will be less than the open market value if property sold with vacant possession, independent valuation requirement, other factors influencing provider's offer, potential for future equity release if % share retained, lifetime lease conditions and implications, and right to reside in property until death or entering into long-term care, generic examples of advantages/disadvantages, rights of partner to live in property (joint home reversion plans) – 'last survivor', variations in types of plan and how these impact on individual client/potential reversion occupier;
- 6.3 The advantages/disadvantages of lump-sum products against those offering flexible drawdown.
- 7. Understand the rules relating to State benefits and taxation, the sources of information and specialist advice regarding the implications on these of entering into an equity release arrangement**
- 7.1 Impact on State benefits and access to grants and sources of specialist advice;
- 7.2 Impact on tax position and sources of specialist advice;
- 7.3 Taxation of different equity release options;
- 7.4 Establishing the consumers' eligibility for and take up of benefits, including State Pension Credit;
- 7.5 Regional variations.
- 8. Analyse the suitability and affordability of the different types of equity release plans and their principal alternatives for different types of consumer**
- 8.1 Lifetime mortgage products including the impact of choice on the estate;
- 8.2 Home reversion plans – the short-term and long-term costs, including property insurance, property maintenance and the impact of choice on the estate;
- 8.3 Alternative options – trading down/downsizing, disposing of other assets, grants including the organisations able to advise on grants, sale and rental (including tenancy considerations, effect of life expectancy), informal arrangements (for example borrowing money from relatives), debt advice including debt consolidation advice from Citizen's Advice Bureau, review of lifestyle/expenditure, anticipated legacies and inheritances.
- 9. Assess the advantages, disadvantages and potential risks to consumers associated with taking out equity release and when these might arise**
- 9.1 Factors that influence whether the consumer has access to further funds;
- 9.2 Impact on tax liability;
- 9.3 Impact of use of finite resource – e.g. sale proceeds can only be spent once;
- 9.4 Potential restrictions regarding future alterations to the property and impact of any repair/maintenance and insurance clauses;
- 9.5 Impact of divorce and/or remarriage;
- 9.6 Impact of inflation on fixed income;
- 9.7 Impact of not being able to use home as security for potential future borrowing, loans or mortgage;
- 9.8 The purpose of a loan;
- 9.9 Ability/inability to repurchase or inheritors to repurchase equity share and financial implications of seeking to repurchase equity share;
- 9.10 Impact of limitations within lease – e.g. on having person move into the property;
- 9.11 Principal terms of lifelong lease;
- 9.12 Impact of terms and conditions arising from variations in type of home reversion plan;
- 9.13 Other factors and costs associated with taking out a home reversion plan and timescale required to complete the process;
- 9.14 Impact of future inability to sub-let or allow anyone (including family members) to gain tenancy rights or even live in property without permission of reversion provider;
- 9.15 How debt can increase rapidly where interest is rolled-up under lifetime mortgages;
- 9.16 The possibility of negative equity (certain products and providers that are not within SHIP);
- 9.17 The terms associated with early repayment.
- 10. Assess the relative levels of risk for different consumers taking account of their individual circumstances**
- 10.1 Life expectancy and health considerations;
- 10.2 Amount of equity and amount consumer wishes to release;
- 10.3 Purpose of the equity release;
- 10.4 Impact upon beneficiaries and on planned provision for long-term care.

11. Apply suitable equity release solutions to the circumstances of different types of consumer

- 11.1 Provision of ethical and compliant advice;
- 11.2 Methods of verifying information supplied by consumers;
- 11.3 Methods of checking that equity release solutions match consumers' needs, demands and circumstances;
- 11.4 Impact of mortality and morbidity on product selection;
- 11.5 Role of family/beneficiaries in the decision and advice process;
- 11.6 Explaining complex technical matters and checking consumer understanding;
- 11.7 Rule requirements relating to financial promotions and to disclosure;
- 11.8 Instances when equity release is not the most appropriate course of action;
- 11.9 Minimum standards for suitability as required under FSA rules;
- 11.10 Measures in place to protect consumers' interests – regulation, complaints processing; FOS; FSCS; SHIP;
- 11.11 Requirements of rules regarding the potential reversion occupier taking up independent legal advice;
- 11.12 Lifetime mortgage products and options, including importance of a no negative equity guarantee and the impact of choice on estate.

Reading list

The following list provides details of various publications which may assist with your studies. Periodicals and publications will be of value in ensuring candidates keep up to date with developments and in providing a wider coverage of syllabus topics. Any reference materials cited are authoritative, detailed works which should be used selectively as and when required.

Note: The examination will test the syllabus alone.

The reading list is provided for guidance only and is not in itself the subject of the examination.

CII/PFS members can borrow most of the study materials from CII Knowledge Services and may be able to purchase some at a special discount. For further information on lending and discounts go to www.cii.co.uk/knowledge.

Equity release. London: CII. Coursebook ER1.

Equity release. Brad Baker. London: CII Knowledge Services. Updated as necessary. Available online at www.cii.co.uk/knowledge/factfiles (CII/PFS members only).

Periodicals

Financial Adviser. London: Financial Times Business. Weekly. Also available online at www.ftadviser.com.

Money Marketing. London: Centaur Communications. Weekly. Also available at www.moneymarketing.co.uk.

Mortgage Introducer. London: Publishing Group. Fortnightly. Also available at www.mortgageintroducer.com.

Examination guides

You are strongly advised to study these before the examination. Please visit www.cii.co.uk to buy online or contact CII Customer Service for further information on +44 (0)20 8989 8464.

Exam technique/study skills

There are many modestly priced guides available in bookshops. You should choose one which suits your requirements. You will also find advice at www.cii.co.uk/knowledge/careersupport (CII/PFS members only).

For a more interactive approach, you should consider: Winning the brain game. London: CII, 2006. CD-ROM.