Home reversion plans

Key information for firms

MARCH 2007

FACTSHEET

We will regulate home reversion plans (HRPs) from 6 April 2007.

This factsheet is for:

- **a provider investing in residential property via HRPs; or**
- **an intermediary selling HRPs with or without advice.**

It explains what regulation of HRPs means to you, where to find our new rules, and gives an overview of some of the key requirements.

What regulation means

Regulation of HRPs will result in increased consumer protection so these products will be on a level regulatory 'playing field' with lifetime mortgages. Consumers who enter into a regulated home reversion contract will have access to both the Financial Ombudsman Service (FOS) and the Financial Services Compensation Scheme (FSCS). Our rules help to mitigate the potential risks involved with HRPs.

Key terms used in our rules: 'home finance' and 'equity release'

We use the term 'home finance' to collectively refer to sale and lease arrangements such as HRPs and home purchase plans (also known as Ijara home finance), and to standard mortgages and lifetime mortgages. We use the term 'equity release' to collectively refer specifically to HRPs and lifetime mortgages.

Introducing the HRP rules

We have tried to minimise the changes to our Handbook by applying existing lifetime mortgage rules, adapted as necessary, where the risks are the same as for home reversions. This factsheet focuses on two key areas of our Handbook – conduct of business and prudential standards.

The Conduct of Business rules will be located in the re-named 'Mortgages and Home Finance: Conduct of Business sourcebook', otherwise known as 'MCOB'. This sourcebook contains the existing rules for standard and lifetime mortgages and now includes the new home reversion and home purchase plan (Ijara) rules.

The Prudential standards that apply to home finance firms, such as capital and PII requirements, are now located in a separate sourcebook called 'Prudential sourcebook for Mortgage and Home Finance Firms, and Insurance Intermediaries', or 'MIPRU' for short. We have moved these rules from the larger Prudential sourcebook to make it easier for firms to find them. They are on our website at: http://fsahandbook.info/FSA/html/handbook.

We have issued a document that summarises the key requirements for home finance intermediaries called 'Key Rules for Mortgage and Home Reversion Brokers'. It is available at: http://www.fsa.gov.uk/Pages/Library/Policy/Handbook/key_rules/index.shtml.

The table below highlights key HRP regulatory areas and corresponding rules.

Issues relevant to both providers and intermediaries	Corresponding rule(s)
Firms need to ensure that any financial promotions they issue are clear, fair and not misleading.	Principle 7 MCOB 2.2.6R /2.2.8R MCOB 3
The 'Keyfacts' disclosure documents (i.e. IDD and KFI) need to be clear and provided to consumers in a timely way.	MCOB 2.2.6R MCOB 4.4.1R (as modified by MCOB 8) MCOB 5.5.1R (as modified by MCOB 9)
Firms can sell HRPs with or without advice, although it is likely that most consumers will consult an adviser.	MCOB 8.5 and 8.6
There is an obligation on regulated firms to ensure consumer interests are protected to a reasonable standard. These interests include right of tenure, protection of any legal or beneficial interest in the property and protection of income stream for income plans. Firms will usually be required to obtain confirmation from a customer's legal adviser that they have been instructed to ensure the customer's legal rights under the plan are protected and that all relevant legal matters have been discussed.	COB 2.1.2R (Application) MCOB2.6A MCOB 2.6A.5R MIPRU 4.4.10R
Home finance appointed representatives are now allowed to register with up to four different principal firms. This means they could have a different principal for home purchase plans, mortgages, lifetime mortgages, and HRPs.	SUP 12.5.6A.R
A property valuation needs to be carried out by a competent valuer who is independent of the provider. An intermediary will need to ensure this if the provider is unauthorised.	MCOB 2.6A.12R
Advisers need to meet the relevant training and competency requirements (this also applies to providers who have an advisory function).	TC 2
Further issue relevant to intermediaries	**Corresponding rules**
On some occasions a home reversion provider will not need to be authorised, for instance, a one-off investment by a wealthy individual. The duty is on the regulated firm to ensure that consumer receives a reasonable level of protection.	MCOB 2.1.2R (Application) PERG 14.5

Training and Competence (T&C)

Intermediaries who advise on HRPs need to have good overall knowledge of the equity release market, including lifetime mortgages and how they work, so they can properly decide that an HRP is a suitable product for their customer. Those who script or oversee non-advised sales of HRPs also need to have a similar level of competence.

Individuals carrying out these activities will have to pass an appropriate equity release examination as part of the process of attaining competence for their role, unless their firm assesses them as competent at 6 April 2007 in accordance with the HRP transitional provisions ('grandfathering') – see below.

It is up to the firm to decide what an appropriate examination is. If the firm selects an exam from the List of Appropriate Examinations maintained by the Financial Services Skills Council (FSSC) and can justify the exam is appropriate, it will benefit from a safe harbour when complying with our requirements. The FSSC has set exam standards for equity release activities which exam providers have to comply with – the FSSC will update its appropriate examination list to reflect the equity release exams it has approved. You can access this list at the following link: http://www.fssc.org.uk/cgi-bin/go.pl/exams/index.html.

Grandfathering arrangements

The HRP grandfathering arrangements last for only two years. These transitional arrangements also apply to those who script or oversee non-advised sales of HRPs.

Home reversion 'grandfathering' summary			
If a competent HRP adviser is grandfathered at 6 April	and is already competent to advise on lifetime mortgages	→	it will be necessary for the adviser to pass an HRP top-up exam within two years of that date.
	but is not at that time competent to advise on lifetime mortgages	→	it will be necessary to pass a full appropriate equity release exam within two years of that date.
	but does not pass the required exam within the two-year period	→	they will have to stop carrying out the activity until they have passed a full appropriate equity release exam.

In February 2007, we published our Consultation Paper 07/4 on the T&C Sourcebook Review. This set out our proposals for making the T&C regime simpler, more principles based and user friendly, without lowering competence standards. You can find this on our website at: http://www.fsa.gov.uk/Pages/Library/Policy/CP/2007/07_04.shtml.

Treating customers fairly

The rules and guidance in Chapter 2 of MCOB set out general conduct of business standards, including protecting customers' interests. These standards support FSA Principle 6 which states '*a firm must pay due regard to the interests of its customers and treat them fairly*'. More information on the Treating Customers Fairly initiative and what it means for your firm is on our website: http://www.fsa.gov.uk/Pages/Doing/Regulated/tcf/index.shtml.

Financial promotion rules

Firms must take reasonable steps to ensure that any home reversion promotion they produce after 6 April 2007 meets our requirements to be clear, fair and not misleading. We initially set out the home reversion financial promotion rules in Policy Statement PS06/12 and these will be included in Chapter 3 of MCOB. FSA Principle 7: Communication with clients, applies to all financial promotions: '*A firm must pay due regard to the information needs of its clients and communicate information to them in a way which is clear, fair and not misleading.*'

We do not want to stifle the use of innovative marketing techniques but we do want to see promotions setting accurate expectations for consumers. We acknowledge that firms want their promotions to be enticing but we expect financial promotions to present an overall fair impression of the product, covering both the advantages and disadvantages of any feature promoted.

Key financial promotion requirements

Every HRP promotion should:

- describe any home reversion plan as a 'home reversion plan' and not use any other expression to describe it;
- prominently state that it relates to an HRP and the customer should ask for a personalised illustration to understand its features and risks; and
- if it describes a feature of any HRP, give no less prominence to the possible disadvantages than to the benefits associated with that feature. And it must not use design, content or format that disguises, obscures or diminishes the significance of any statement, warning or other matter that the promotion is required to contain.

An initial review of HRP financial promotions

We have reviewed a sample of HRP financial promotions (press adverts and websites) to assess the standards before regulation. We observed the following examples of good and poor practice and found that firms did not always present the features of HRPs in a balanced way. The examples below illustrate this point:

Good practice example: A press advert which suggests releasing equity to improve a consumer's standard of living through either a lifetime mortgage or an HRP. The promotion also highlights the associated drawbacks – including that their estate may be reduced and that State benefits may be affected.

Poor practice example: A firm's website that makes several promotional statements about its HRP yet qualifies the statements in a separate Frequently Asked Questions (FAQ) link. This is unlikely to be clear, fair and not misleading because (a) the qualifying statements were hidden in the FAQ link and (b) the qualifying text was lost among other text.

We will continue to monitor promotions to ensure that firms meet our standards and will take action against firms that issue misleading promotions after 6 April 2007.

keyfacts® Disclosure documents

Firms involved in selling HRPs are required to give consumers documents containing information about the services and products that they offer. These are called '**Keyfacts about our equity release services**' (also known by firms as an Initial Disclosure Document, or IDD for short) and '**Keyfacts about this home reversion plan**' (also known as Key Facts Illustration, or KFI) at the relevant stage. The home reversion KFI is a new requirement, tailored to the risks and features of home reversions but there is some common ground between this and the lifetime mortgage KFI. **We have produced some IDD and KFI templates to help you prepare your own documents. These are on our website**: http://www.fsa.gov.uk/Pages/Doing/small_firms/mortgage/disclosure/index.shtml.

Consumer factsheet

We know that firms like to give clients our equity release consumer factsheet 'Raising money from your home' to increase their awareness of HRPs and lifetime mortgages. For more information visit: http://www.moneymadeclear.fsa.gov.uk/tools/publications.html.

Lifetime mortgages feedback

In 2006 we carried out some thematic work to look at how firms were selling lifetime mortgages. We observed varying standards in the industry, with some firms in breach of our rules, while others delivered consumer protection above that required by the rules. The full document is on our website and is called 'Lifetime mortgages: examples of good and poor practice': http://www.fsa.gov.uk/pages/Doing/small_firms/mortgage/PDF/lifetime_mortgages.pdf.

If you have any questions about anything in this factsheet you can ask your supervisory contact at the FSA.