TOPIC **4**

Home reversion plans

LEARNING OBJECTIVES

Home reversion plans are the most common alternative to lifetime mortgages. Before we look at the details of these plans, it is important to note that products develop rapidly and some of the content in this area will be subject to change. Here, we will explore the general nature of the plans and the options available at the time of writing (September 2019).

By the end of this topic, you should:

- have an understanding of the principles of home reversion plans, the types of home reversion plan available and the circumstances for which such schemes might be appropriate;
- have an understanding of the circumstances in which a home reversion plan may be appropriate and how these are influenced by consumer preferences and financial needs;
- have an understanding of the impact of a home reversion plan on consumers' future options;
- have an understanding of the key features, relative advantages and disadvantages of different types of home reversion plan; and
- be able to assess the advantages, disadvantages and potential risks to consumers associated with taking out a home reversion plan, and when these might arise.

THINK …

Before you start work on this topic, take a moment to think about what you already know about home reversion products:

For instance:

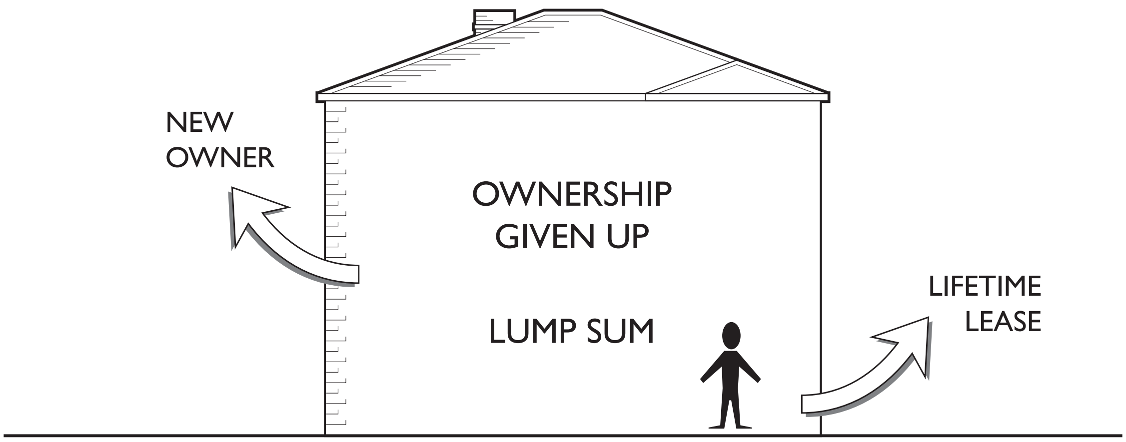
- How do they differ from lifetime mortgages?
- In what ways are they similar to lifetime mortgages?

4.1 Overview

The homeowner sells part or all of their property to the reversion provider in exchange for a cash lump sum. The property is then registered in the name of the reversion provider. The provider will lease the property back to the former homeowner, usually for life or until entry into long-term care. Rent may or may not be payable, depending on the plan and provider chosen.

As with lifetime mortgages, it is particularly important that at the outset the planholder understands the circumstances in which the plan will end.

FIGURE 4.1 HOME REVERSION SCHEMES



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IMPORTANT

With a home reversion plan, the owner is selling the property to a new owner (the plan provider). Aside from the legal change of ownership, this could also present a psychological challenge to the former owner, whose status has changed from owner to tenant. On a day-to-day basis, the former owner is unlikely to notice much difference. However, their control over the property is restricted as any major work, changes or improvements will require agreement from the reversion provider.

4.2 Eligibility

Not all potential home reversion plan customers will meet the provider's eligibility criteria regarding their property, their age and their ability to pay rent (where required).

4.2.1 The property

- A typical minimum property value would be £80,000–£100,000.
- The stated maximum may be £500,000–£1m, although the provider may be willing to make exceptions subject to individual consideration.
- The property must be in a condition of repair that is acceptable to the provider. While the provider will not expect perfection, it must be remembered that the provider will be buying the property with a view to selling it at a later stage.
- The property must either be freehold or leasehold. Leasehold properties subject to an 80-year or more lease may be acceptable at a discount to standard rates. Alternatively, the provider may require that the remaining lease length plus the age of the youngest client is 170 years or more.
- One provider only accepts properties at standard rates that are south and east of a line between Bristol and the Wash (including Birmingham postcodes). Other areas may be acceptable at a discount. Another provider only accepts property in England, and excludes the Channel Islands and the Isle of Man.
- Existing loans and mortgages secured on the property must be repaid prior to the reversion. It may be possible to use cash from the reversion to repay the original debt.
- The property must be registered at the land registry.

Certain types of property are not usually acceptable, such as new builds, flats and retirement homes. Ex-local authority property, listed buildings and timber-framed dwellings may be acceptable at a discount to standard rates. Each provider has their own standards for the properties they will and will not consider.

FACTFIND

To find out more about the property suitability criteria of one provider go to:

https://www.retbridge.co.uk/RetirementBridge/media/Retirement-Bridge/Documents/Property-Suitability-Criteria.pdf [Accessed: 11 September 2019].

4.2.2 The applicants

- The minimum age at which an applicant can obtain a home reversion plan in today's market is 60. The maximum age that providers will accept is typically 90, sometimes older, but in some cases a maximum age may not be specified.

- Although there are no health requirements for a home reversion plan, those who have potentially life-threatening or life-shortening medical conditions may be well advised to avoid home reversion. If the tenant dies shortly after the plan starts, a rebate is only available if this option is chosen and paid for at the outset.
- A signed certificate of occupation may be required each year to confirm the planholder is still in residence.
- The occupier will require the provider's agreement to allow other people not party to the arrangement to live in the property.
- Any occupiers aged 17 or over who will live in the property will be required to sign a disclaimer (an occupier's deed or occupation waiver) waiving their rights to an interest in the property.

4.2.3 Affordability

In some cases, no rent is payable and there are no minimum income requirements as no payments are required. However, where rent is payable, the provider will require an affordability check to be conducted. This protects their interests as well as the applicant's.

4.3 Variations

At present, homeowners can either enter into a full reversion (where all of the property is sold to the provider at outset under the plan) or a part reversion (where only a proportion of the property is sold initially).

In the past, income reversion plans have also been offered, so we will cover them here for the sake of completeness.

Each provider will establish its own features and conditions to suit its needs and those of its target market.

4.3.1 Full reversion

The full value of the property is entered into the plan, which generates a cash lump sum. The planholder is then able to spend the cash as they wish. The lump sum is not subject to tax, although any interest or dividend income generated from investing it may be taxable, depending on the planholder's tax status.

4.3.2 Part reversion

Rather than entering all of the property into the plan at the outset and receiving the maximum lump sum available, plans typically allow homeowners to take an initial lump sum based on giving up ownership of only a proportion of the property value, followed by a series of further part reversions over the years. This arrangement could result in a larger percentage of the property value being available in total than with a full reversion scheme. This is because each part reversion is based on the property value at the time the option is exercised, rather than at the beginning of the plan. So if the value of the property increases, the percentage of the property being used for a given amount released is reduced. Equally, this arrangement could result in a smaller percentage of the property value being available if the value of the property falls as subsequent payments could require a larger percentage of the property value for a given amount.

EXAMPLE

Seven years ago, Goran, aged 70, used a home reversion plan to release a £40,000 lump sum from his property which was then valued at £200,000. He therefore gave up ownership of 20 per cent of his property (£40,000 / £200,000 x 100% = 20%).

If he now wishes to release a further £40,000 and the value of his property has increased to £250,000, he will only be required to give up ownership of an additional 16 per cent of his property (£40,000 / £250,000 x 100% = 16%).

A further benefit is that the customer either retains legal ownership of the part of the property that is not reverted or, more usually, is noted as the beneficial owner of that part. This could mean that more of the property remains in the estate in the event of early death. The amounts drawn down are not taxable and do not directly affect income-related benefits, although capital retained may be used to calculate a notional income when calculating benefits. These factors are a significant advantage over, for example, the purchase of an annuity with a larger lump sum, because annuity income would be included in any financial assessment for means-tested benefits and is taxable in part.

EXAMPLE

Clara is looking to release £20,000 using a home reversion plan to pay for emergency repairs on her property. She then anticipates making two gifts of £30,000 each to her grandson and granddaughter to enable them to attend university when they turn 18 in 3 and 6 years' time respectively.

The reversion provider has offered her the choice of selling her entire property and taking the maximum lump sum available to her of £100,000 upfront, or she can sell a proportion of the property now to provide the funds for her property repairs and then sell further stakes in the property closer to the time that she needs the additional funds.

By not selling all of the property at the outset, Clara only takes the funds she needs now. If her circumstances change in the future, she has the flexibility to sell more of the property to generate the funds she needs. Alternatively, she might find that she no longer requires the funds and does not need to sell any more of the property, in which case she will have retained more of the value of her property in her estate for the eventual benefit of her heirs.

4.3.3 Income reversion

The cash generated from the plan is used to buy a lifetime annuity to produce a fixed or escalating income for the customer. The same discounting principle applies as with lump sum reversions. This means that the income generated would have been less than could be gained by selling the house and buying an annuity on the open market.

THE AMOUNT RELEASED

The amount advanced will not represent the true market value of the property. Effectively the homeowner sells at a discount, which reflects the fact that the provider is granting a valuable lease and that they may not have taken full ownership. Where no rent is payable, another reason for the discounted lump sum is that the provider will not receive any payments or interest on the capital invested until the property is sold, which could be many years in the future. It is for this reason that a higher amount will be advanced where rent is paid.

Some income reversion plan providers used to permit annuities only from their own range, which meant that there was a risk that the planholder would not be able to maximise the income by selecting the best rate on the market. However, this may have been easier for the planholder than having to seek additional annuity advice or find an appropriate annuity themselves from a different provider.

As stated earlier, no reversion provider currently offers this option.

4.4 The amount released

The amount available will depend on a number of factors including:

- the age of the applicant;
- whether it is a sole or joint plan;
- the proportion of property retained;
- the type and value of the property;
- whether or not the applicant chooses to pay rent (where this is available as an option); and
- any features or options chosen at the outset.

The minimum release may be as little as 25 per cent of the full amount available. The maximum is obviously 100 per cent.

Particularly large or small releases, say in excess of £350,000 or less than £25,000, may be subject to individual consideration.

FACTFIND

To view the reversion rates (the percentage of the full value being reverted by age and gender) currently on offer by one provider go to:

http://www.crownequityrelease.com/ifa

Select the fact sheet from the download resources menu.

Alternatively, you can try their calculator, which will allow you to work out how much capital a customer could release:

http://www.crownequityrelease.com/how-it-works [Both accessed: 11 September 2019].

4.4.1 Further releases (part reversions)

- The planholder may be able to obtain further finance, providing they have not already sold all of their property to the reversion provider. This may be subject to a minimum amount, say £10,000, or a minimum percentage being released, such as 10 per cent.
- A further release is likely to be conditional on having satisfactorily maintained the property and complied with the provider's terms and conditions thus far.

- The amount available would be based on the property value and the age of the borrower at the time. An up-to-date independent valuation will be required. The planholder will be responsible for any fees and legal costs.
- Where a higher rent is subsequently payable, a reassessment of affordability will need to happen.
- The provider may also require the planholder to take independent financial advice, in addition to legal advice, before releasing further funds.

EXAMPLE

Beatrice is considering a home reversion plan. She believes a partial reversion would suit her best because she does not need the whole amount that a full reversion would release at present. She intends to use the proceeds to add a sun room and she would like to benefit from any increase in the value of her share of the property.

Legacy features

- Some income schemes allowed a cash sum to be taken with a reduced income. A typical cash sum might have been 10 per cent.
- Other plans provided an initial lump sum, typically 25 per cent of the property value, and then a smaller escalating amount each year for an agreed number of years.
- Some plans entitled planholders to a share in the rising property value if house prices rose at a rate above a specified threshold. This was typically called a ‘house price inflation guarantee’.

4.5 Vacating the property

- The provider will usually require vacant possession of the property within a set timescale, six to eight weeks for example, following death or permanent vacation of the property by the planholder (last surviving planholder for joint plans).
- Any other occupiers who have signed an occupier’s deed/waiver will have given their consent to vacate the property once the last surviving planholder has left.

VACANT POSSESSION

The right of the reversion provider to the exclusive use of a property once any previous occupant has moved out.

- On death, the provider retains their proportion of the sale proceeds in line with their ownership, with the rest passing into the deceased's estate.
- If the planholder has entered into long-term care, then they will receive the residual proceeds themselves.
- A proportionate deduction will be made for sales costs.

EXAMPLE

Kendra sold 75 per cent of her property to a home reversion provider in return for a cash lump sum. On her death, 25 per cent of the proceeds of the sale of the property will be paid to her legal personal representatives who will then pass this on to the beneficiaries of her estate.

Should Kendra need to enter into long-term care, the proceeds will be paid to her instead.

4.5.1 Optional early vacancy guarantee

Schemes can provide an element of capital protection on early death or moving into long-term care, whereby a further lump sum is paid if the event occurs within a set period from the plan's start date. For joint planholders, this applies in relation to the last remaining planholder.

For example, if the property is vacated within the first five years a cash sum becomes payable. The sum may be calculated on, say, 80 per cent of the original valuation less the original cash release paid.

Any such guarantees will be costed into the plan from outset as all plans are based on life expectancy.

EXAMPLE

Retirement Bridge (2019) provide the following example:

"Mr and Mrs Brown received a cash lump sum of £129,247 from their property which was valued at £250,000, paying a fixed rent of £250 per month. After a few years Mrs Brown became unwell and had to move into long-term care. Mr Brown wants to downsize and move near the coast. He would receive a payment of £70,573 should he choose to vacate the property."

WHY DID SOME TENANTS RECEIVE A REBATE?

In the past, some schemes have paid an additional lump sum, typically between 10 and 20 per cent of the original advance, if the tenant left the property before death, but did not carry the plan over to a new property. The amount of the lump sum 'rebate' available reduced the longer the homeowner remained in the property.

4.5.2 Other circumstances in which the property must be vacated

The provider may be entitled to terminate the lease, sell the property and end the plan if the planholder:

- is no longer using the property as their main residence or has abandoned the property;
- has failed to meet their obligations regarding service charges, utilities and other outgoings;
- has failed to keep their rent payments up to date (if applicable);
- has accrued unreasonable debts to the reversion provider, say £5,000;
- has wilfully allowed the property to fall into a state of degradation.

✓ **CHECK YOUR UNDERSTANDING 1**

State the two main circumstances in which a home reversion provider will require vacant possession of a property?

4.6 Initial and ongoing costs

As well as the initial costs of setting up a home reversion plan, there are some ongoing costs that the planholder needs to consider.

4.6.1 Initial costs

The valuation fee, which is likely to be non-refundable, is usually paid for by the applicant. Fees are typically charged according to scale rates and may range from £200 to £700.

Similar to a mortgage, the property is valued and surveyed as part of the application process and any necessary repairs highlighted in the report will usually be given a timescale for completion. If there are more serious problems, like damp or structural problems, the provider may decline the application.

It is a requirement of the MCOB rules that a home reversion provider must ensure that a valuation is carried out by a competent, independent valuer (FCA, 2014).

The planholder is likely to be required to undertake any essential repairs prior to the sale and at their own cost.

The customer must obtain independent legal advice before entering into a home reversion plan and they will have to pay their own legal fees. They must also obtain and pay for financial advice.

4.6.2 Ongoing costs

The planholder will be required to maintain and pay for their own buildings insurance and provide documentary evidence of its existence each year.

Some providers allow the planholder to continue with the insurance company of their choosing (subject to the insurer and the policy meeting the provider's requirements), while others may insist that insurance is arranged on a block policy. The requirements will be clearly shown on the offer documentation and the tenant will be responsible for paying the premiums.

The planholder should take care not to act in any way as to invalidate their insurance.

The planholder will be expected to maintain the property to the same standard as at the date the plan commenced throughout their tenancy period.

The provider may reserve the right to inspect the property. For example, internal and external property inspections may take place every two or three years.

The planholder remains responsible for their household bills.

4.7 Future variations

Ideally, a home reversion plan will remain unchanged for life, as there may be considerable costs involved in making changes to the plan and strict conditions that must be complied with. However, subject to the terms and conditions of the provider, it may be possible to vary the plan in a number of ways after it is taken out.

4.7.1 Moving home (portability)

It is often possible, though not always practical, for the planholder to move home once the plan has started. In this case, the reversion company would be registered as the owner of the new property. The move will be subject to the new property meeting the reversion provider's property suitability criteria, a satisfactory valuation of the new property, and the sale of the current property.

The full position would be outlined in the scheme terms and conditions, but in general the following conditions apply:

- A move to a cheaper house will require some repayment to the provider.

EXAMPLE

Gordon entered into a 50 per cent reversion on his property, which was worth £100,000 at the time. He now wants to sell for £150,000 and move to a property costing £80,000.

The provider will require repayment of 50 per cent of the difference in price between the two properties. The difference is £70,000, so the provider and planholder will receive £35,000 each. The provider will then have rights over 50 per cent of the new property.

- A move to a more expensive property will require an adjustment to the legal documentation, to reflect the fact that the reverted amount has been transferred to the new property.

EXAMPLE

If Gordon wanted to move to a property costing £200,000, as the provider currently has a 50 per cent share of the value of his current property (ie £75,000) this could be transferred to the new property and the percentage owned by the provider would reduce to 37.5 per cent (£75,000 / £200,000 x 100% = 37.5%). Gordon may want to increase the amount the provider owns in order to release further equity to help with the purchase.

While the plan terms and conditions may appear to provide flexibility in terms of moving, the reality may be different. The requirement to repay some of the difference in the property prices may restrict future options. In a similar vein, where a higher rent is subsequently payable, a reassessment of affordability will need to be arranged.

4.7.2 Repurchase

The planholder may be able to repurchase the property or a share of the property sold to the provider. The property will usually be bought back at full market value, subject to an independent valuation. This will be considerably more than the sum released in the first place, therefore careful consideration is required.

EXAMPLE

Len entered into a 100 per cent reversion on his property, which was worth £125,000 at the time. He received £60,000. He has had a change of heart and wishes to rebuy his home. An independent valuation suggests that the property is now worth £145,000. This is the amount the reversion provider will expect Len to pay to repurchase the property.

4.7.3 Changing providers

Once a scheme has started, it is most unlikely that the planholder will be able to change reversion providers. This is primarily because the original provider would require repayment at the full market value, leaving the planholder with little or no equity to take to a new plan.

4.7.4 Removing a planholder

Removing a planholder after plan commencement requires the provider's consent. This will usually be permitted if the reason is divorce or separation, and providing the terms and conditions of the plan have been complied with and no outstanding amounts are due to the provider, although there will be an administration charge. Both planholders should seek independent legal advice from separate solicitors.

4.7.5 Adding a planholder

Consent is also required for an additional person to join the plan after commencement. A premium will be payable, based on the value of the property, the amount retained, the planholders' ages and any other additional features or options chosen. Legal and financial advice should be taken, and costs and fees will be involved. Consent is dependent on complying with the plan's terms and conditions to date, the new person meeting the eligibility criteria, both living at the property and, possibly, a medical. A further valuation will be carried out.

CHECK YOUR UNDERSTANDING 2

List the main initial costs involved in a home reversion plan.

4.8 The lease

The reversion agreement is the subject of a lifetime lease. The lease gives the new tenant (the previous owner) the right to live in the property for the rest of their life or until moving into long-term care. The lease or the reversion agreement will usually contain certain conditions.

In the case of joint life plans, if one party dies or goes into long-term care, the 'survivor' retains the tenancy rights until their death or entering into care.

The tenant will require the provider's permission to change, adapt or alter the property. The provider will be concerned about whether the alteration will add value, whether the relevant consents (planning/building) are in place, the quality of construction, and the status of the builder.

The provider is unlikely to allow letting or subletting of the property. In rare cases where this is allowed, a number of conditions will be imposed.

There may be conditions regarding the amount of time the property can be left unoccupied. For example, the provider may wish to be informed if the property is to be empty for more than three calendar months. Failure to inform the provider may enable them to treat this as abandonment and terminate the lease.

The tenant is responsible for ensuring buildings insurance is in place, which must be approved by the provider.

The tenant is responsible for maintaining the property and the costs of any repairs. If essential repairs are identified before the plan commences, the provider will either require these to be completed and paid for by the homeowner prior to the plan commencing, or will hold back part of the funds to be released until the repairs are carried out (known as a retention). Essential repairs may also be identified by the provider after the plan has commenced, following a regular property inspection.

The tenant may be required to pay rent to the provider or the property may be rent-free.

The lease can be terminated if the tenant breaks any of the terms.

FACTFIND

To view a sample home reversion lease go to:

http://www.crownequityrelease.com/ifa
[Accessed: 11 September 2019].

Select the sample lease from the download resources menu.

4.9 Rent options

The provider may offer the planholder a number of choices when paying rent, as detailed in Table 4.1.

TABLE 4.1 MAIN WAYS OF PAYING RENT

Type of rent	Conditions
No rent	The planholder pays no rent.
Fixed monthly rent	Payable throughout the life of the plan or until a set age, such as 80, 85 or 90 (rent cease option). The rent may also be reduced on the death of the first spouse (rent reduction option). This could be for someone with a high income who needs a cash lump sum.
Escalating rent	The rent increases at a set percentage each year on the anniversary of the plan, for example 2.5 per cent. This may be appropriate for someone with an increasing annual income who needs a lump sum.

Where rent is payable, the former homeowner will receive a larger cash sum at the outset. The rent due will usually be payable by direct debit.

You should note that home reversion plans that require rental payments are not compliant with the Equity Release Council's (ERC's) product standards. This is because the planholder runs the risk of losing their home if they do not keep up their monthly rent payments. It is for this reason that the provider will also conduct an affordability check where rent is payable.

There may be a minimum rent of around £200 a month with a maximum of 6 per cent of the property value per annum. The plan provider will monitor their rental income to ensure that payments are being made. If a planholder gets into financial difficulties, they should contact the home reversion provider in the first instance to find out what help, if any, is available.

EXAMPLE

Gray's cottage is valued at £200,000. Gray's rent could therefore range from £200 to £1,000 per month: (£200,000 x 6% = £12,000 / 12 = £1,000).

The larger the amount of rent Gray pays, the larger the cash lump sum the reversion provider will release. However, the amount of rent Gray pays may be restricted depending on the outcome of the provider's affordability check. This, in turn, would reduce the lump sum released.

4.10 Legal advice

There is a particular need for an applicant to receive independent legal advice in relation to a home reversion plan given that ownership of the property is being relinquished. ERC member providers are required to ensure that all customers receive independent legal advice. MCOB rules require home reversion providers to confirm that the customer's solicitor has been instructed to protect the customer's legal rights to a 'reasonable level' in relation to the arrangement and to explain all legal rights and obligations of the plan. It is also important that the solicitor is competent to deal with reversion schemes, as opposed to a generalist, as this will prevent delays and ensure that all potential problems can be avoided.

It is vital that those considering home reversion plans are fully aware of the implications of their proposed actions. Independent legal advice will explain and clarify:

- the future ownership implications – that some or all of the property will be owned by a third party;
- the implications of the lease arrangement – in view of the importance of the lease, the applicant should always take independent legal advice to ensure that the lease is properly drawn up and that there are no unreasonable conditions to the arrangement;
- ongoing responsibilities of the tenant;
- what will happen at the end of the arrangement.

The independent solicitor should do the following:

- Check the basis of the contract and the terms and conditions of the arrangement. This should be explained to the applicant to ensure that they are aware of, and happy with, all relevant factors. This should cover rent payable if applicable, the occupier's ongoing responsibilities (particularly for insurance and maintenance), fees and costs and the position on the eventual sale of the property.
- Ensure that the arrangement is registered correctly.
- Arrange for the transfer of title at the Land Registry and other conveyancing work.
- Ensure the registration of the lease. The type of lease used in reversion schemes must be registered with the Land Registry; this protects both parties.

Once the solicitor is satisfied with the legal side of the arrangement and the applicant is aware of the legal implications of the reversion scheme, the contract can be signed. It is important to remember that the reversion is based on a legal contract that commits the homeowner to the transfer of ownership, once the formalities are completed.

CHECK YOUR UNDERSTANDING 3

What three rental options are potentially available under a home reversion plan?

4.11 The issue of ownership

With a full (100 per cent) home reversion plan, the reversion provider will be the legal owner of the property. The tenant (former owner) will not own the property, but will have the right to occupy and use the property, subject to the terms of any lease agreement with the provider. This is known as beneficial ownership.

Home reversion plans differ significantly from other, more conventional equity release solutions. The most important consideration is the psychological impact of the fact that the former owner no longer owns the property (or part of the property) that has been transferred into the scheme. From owning the property on an outright basis, the customer becomes a lifetime tenant on a guaranteed basis; the reversion company becomes the owner of the legal title.

In the case of part reversion, where only part of the property has been entered into the plan, the customer either retains legal ownership of the rest of the property or, more usually, is noted as the beneficial owner of that part.

In contrast, the borrower with a lifetime mortgage arrangement retains legal ownership of the property. Having struggled for most of their lives to own their house outright, many people are reluctant to forfeit ownership to a home reversion provider and would prefer to arrange a lifetime mortgage.

4.12 Potential benefits of home reversion plans

- Monthly rental payments are not necessarily required, which means that all the proceeds from the plan can be used as the individual wishes.
- The planholder is guaranteed occupancy for life (providing they adhere to the provider's terms and conditions and maintain their rental payments where due).
- Home reversion plans generally allow for a higher cash sum to be released than comparable lifetime mortgages.
- Part reversion allows part of the home to be sold, thereby enabling future part reversions which may be financially advantageous due to rising property values.
- Part reversion allows for a known percentage of the property value to be left to the planholder's heirs.
- The proportion of the property in the reversion plan will be taken out of the planholder's estate and may therefore mitigate or reduce an inheritance tax liability.

4.13 Risks of home reversion plans

- The amount of equity released will not reflect the true value of the property being entered into in the reversion plan.
- Once the property has been sold under a reversion plan, the owner loses all rights to future appreciation in the property's value (or the portion of the property entered into the plan).
- If the planholder dies relatively shortly after starting the plan, the arrangement will have been very costly due to the discounted lump sum received and the initial costs. This is made worse where the proceeds have been used to buy an annuity, because the annuity will die with the planholder unless a guarantee has been taken.
- Although many schemes are flexible and contain terms that allow the planholder to move home, moving may not be a practical option. For example, the requirement to repay some of the property value on moving to a smaller home may make such a move impractical. It is almost certain that the provider would refuse to agree to a move into sheltered accommodation due to the limited resale market for such property.

- Increases in income or capital could result in disqualification from, or reduction of, some state benefits.
- Any improvements made to the property will not benefit the planholder financially.

EXAMPLE

William and Joan took out a home reversion plan to add a conservatory to their house, landscape the garden and make several other minor improvements. They raised £30,000 through a reversion plan, placing 50 per cent of their house, valued at £150,000, into the plan. Immediately, the improvements have cost them £75,000 (50 per cent of the property value).

If we assume the house increases in value at 5 per cent a year, after 10 years it would be worth £244,000. The reversion company would be entitled to 50 per cent of the value, which comes to £122,000. This means the improvements have cost William and Joan £122,000 in real terms and the improvements themselves would have had some part in the increase in value.

THINK AGAIN …

Now that you have completed this topic, how has your knowledge and understanding improved?

For instance, can you:

- outline the eligibility criteria for home reversion plans and the factors that determine how much is released?
- state the basic variations currently available, including the different rental options?
- outline the impact of the death or entry into long-term care by the planholder(s)?
- list the costs involved?
- explain the implications of the lease, the change of ownership status and the need for independent legal advice?
- state the potential benefits and drawbacks of home reversion plans?

Go back over any points you don't understand and make notes to help you revise.

Test your knowledge before moving on to the next topic.

Test your knowledge

?

Use these questions to assess your learning for Topic 4. Review the text if necessary.

Answers can be found at the back of this book.

1) Home reversion schemes work on a sale and leaseback basis. What does this mean?

2) Why do home reversion companies not accept all types of property?

3) Victor and Paula took out a home reversion scheme five years ago, putting 40 per cent of their house, then worth £140,000, into the plan. The house is now worth £200,000 and they want to move to a smaller bungalow priced at £150,000. How would this work?

4) Ann took out a home reversion scheme in 2015, two years after she was widowed. In 2017 she married Bill, who moved into the property but did not become party to the plan. What would happen to Bill in the event of Ann's death?

5) What would the provider be concerned about if a home reversion planholder wanted to make alterations to the property?

6) Why is the amount released under a home reversion plan less than the market value of the property?

7) Why do home reversion plans that require rental payments not comply with the ERC's product standards?

8) List five circumstances, other than death or entry into long-term care, when the lease under home reversion may come to an end.

References

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