



Department
for Work &
Pensions

Baroness Finlay
House of Lords
London
SW1A 0PW

October 13, 2017

Dear Ilora

FINANCIAL GUIDANCE AND CLAIMS BILL

Thank you for your interest in this Bill and your contributions so far in the debates. I promised that I would write to you in answer to the questions you raised about equity release schemes and charges.

You asked whether the Equity Release Council's membership include all regulated equity release providers?

Legislation requires that the providers of lifetime mortgages and home reversions are regulated by the Financial Conduct Authority (FCA). The FCA has established detailed conduct of business requirements, including that all sales must incorporate regulated advice given by appropriately qualified staff. *The great majority of the equity release industry, accounting for all but a small number of sales, also belongs to the Equity Release Council.* Equity Release Council members are obliged to adhere to further self-regulatory standards, e.g. in respect of ensuring the provision of legal advice and certain product features.

You asked that if they are not all regulated, approximately how many fall outside?

The legislation does provide for some exemptions. Providers making use of these do not need to disclose that they are un-regulated and so it is not possible to know the precise numbers to whom such exemptions would apply.

As an example, the FCA's 'By Way of Business' is an exemption which would apply where the lending does not contain a commercial element, is at minimal scale (between 2-3 individuals), and is not ongoing. This is designed to create an exemption for individuals making one-off loans to immediate family members.

In addition to specific exemptions, the legislative definitions for mortgage and home reversion activity mean that some forms of what might more broadly be considered 'equity release' (such as downsizing or swapping an existing property for a lifetime lease in a new home) are beyond the scope of regulation.

Although the FCA cannot give a precise number they estimate there to be very few un-regulated providers.

During the debate questions were also raised about the transparency of early repayment charges. There appeared to be two issues raised in respect of early

repayment – the information provided about any charges and the level of those charges.

The FCA requires that the early repayment charges for any lifetime mortgage must be disclosed in the Key Facts Illustration (KFI) given to consumers. This KFI contains a section ‘What happens if you do not want this mortgage anymore?’ In this section the firm must state the cash amount of these charges - and if the charges can vary the provider is required to give illustrative examples as well as a maximum (effectively stating a self-imposed cap).

To ensure fairness it is also an FCA requirement that any early repayment charge should not exceed a reasonable pre-estimate of the costs the firm would incur as a result of the consumer paying off their loan early.

I hope that these answers are helpful and provide reassurance to you on these issues.

A handwritten signature in black ink, appearing to read 'Buscombe', written in a cursive style.

BARONESS BUSCOMBE
MINISTER FOR WORK AND PENSIONS (LORDS)