Equity Release Council

Autumn 2018 Market Report

EQUITY RELEASE COUNCIL

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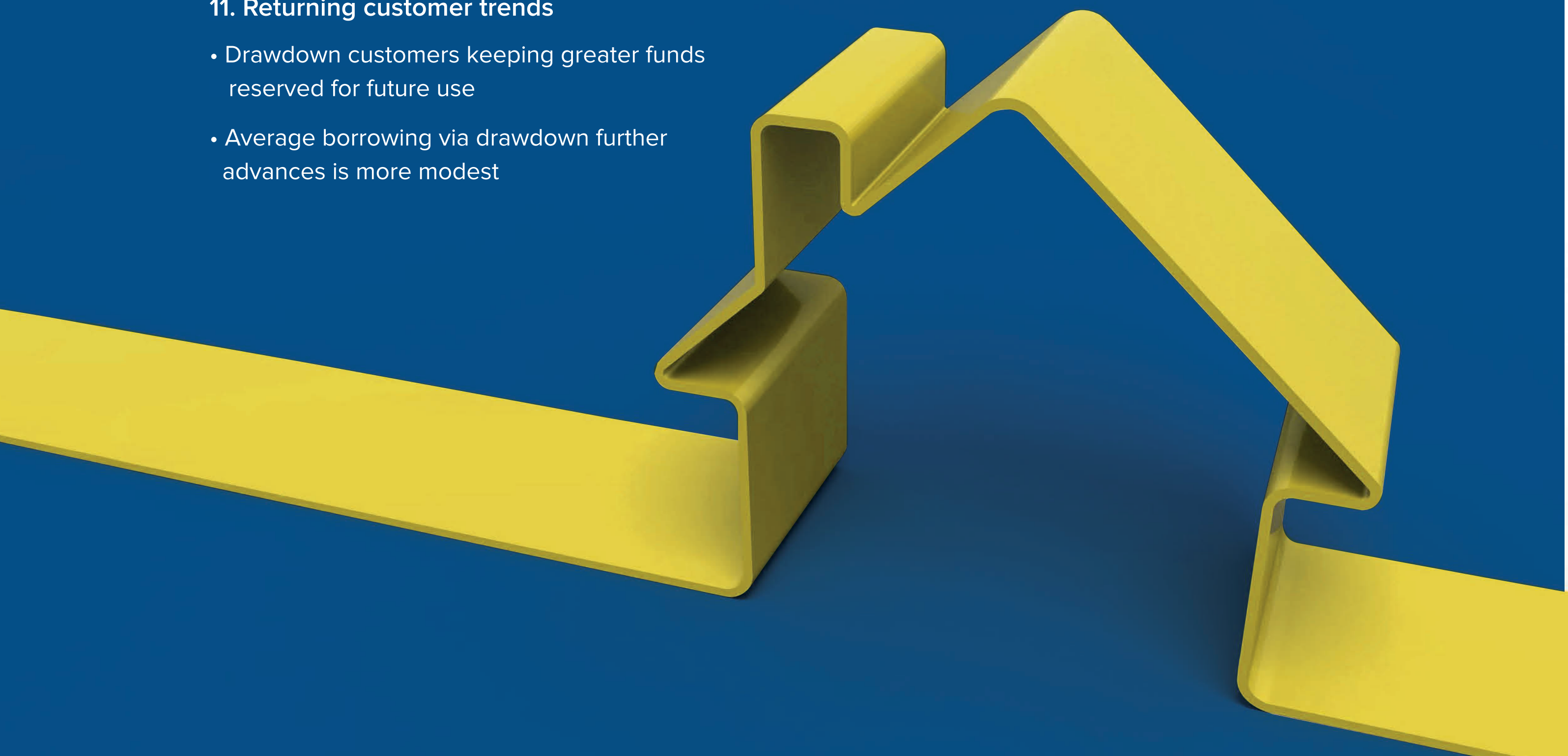


Foreward

It has been a busy period for the Equity Release Council (The Council) and for the industry in general as the sector continues to grow steadily. This Autumn Market Report shows new customer activity has nearly doubled since the first half of 2016, driven by genuine consumer needs among the UK's ageing population in response to wide-ranging financial challenges.

The rise in consumer appetite for equity release reinforces the importance of property in retirement: often a person's home is their largest asset and housing wealth is increasingly becoming recognised by consumers as a vital piece of the retirement funding jigsaw. This year has brought continued evidence that change is afoot and the market is realising its potential to play a crucial role in broader retirement planning conversations, including those around care costs and intergenerational lending.

Equity release products are among the most highly regulated financial services products in the UK. As they cement a mainstream position as part of modern retirement planning, it's now more important than ever for people to have access to guidance and regulated professional financial advice that considers the big picture and how it is evolving. Customers are navigating a growing range of products, so they need to be aware of all their options when deciding how best to support themselves and their families in later life – considering their pensions, savings, investments, property and other assets.

As the mortgage market reflects on the Financial Conduct Authority's (FCA) recent interim report from its market study – which considered a range of potential improvements to a competitive market which is "working well for many people" – there is a need for a wider debate on the essence of appropriate advice and distribution across all asset classes, which will be important factors for anyone with multiple financial planning needs.

Discussions about the potential for housing wealth to help meet diverse social needs have brought opportunities for innovation across the later life lending market. Equity release providers continue to show their commitment to meeting people's changing requirements through new product features and flexibilities, which we explore in this report. The market for older borrowers has recently seen the introduction of Retirement Interest Only (RIO) mortgages, further adding to the options on offer and the need for well-rounded advice.

July saw the appointment of Jim Boyd to the new role of CEO for The Council. We are delighted to have him on board and he is already playing an important role in developing the sector's authoritative voice to support the UK's ever-growing ageing population. In response to the growth of the market we have also made changes to increase the representation of The Council's growing membership on its Standards Board and established a new practitioner Advisory Panel.

We have the highest calibre of industry expertise to represent our members and ensure the products and services they provide are designed to serve customers' best interests. I am looking forward to The Council facilitating the continued growth of a safe equity release market that gives more consumers access to a financial solution in later life.

David Burrowes, Chairman of the Equity Release Council

Market context

Property wealth emerges as mainstream retirement funding choice

The latest projections for the UK population suggest that, in 50 years' time, the nation is set to have an additional 9m people aged 60 and over: more than the size of London. As a result of this broader demographic shift, later life lending is set to play a much larger role in the retirement finance landscape than it does even today.

UK population projections, 2016 to 2066 (thousands)

	2016	2026	2036	2046	2056	2066
All ages	65,648	69,235	71,814	73,948	75,650	77,043
Aged 60-74	10,023	11,487	12,416	11,933	12,675	12,081
Aged 75+	5,326	7,078	8,683	10,693	11,338	12,310
% aged 60+	23%	27%	29%	31%	32%	32%
% aged 75+	8%	10%	12%	14%	15%	16%

Source: Office for National Statistics, 2016-based population estimates, principal population projections

Property is often a person's single largest asset and has become a vital piece of the retirement funding jigsaw in the UK. Investing in property has consistently been cited by the public as the second most popular option among the safest ways to save for retirement, following paying into an employer pension scheme. The latest data shows positive attitudes towards property have strengthened since 2010/12.

Opinions on the 'safest way to save for retirement'

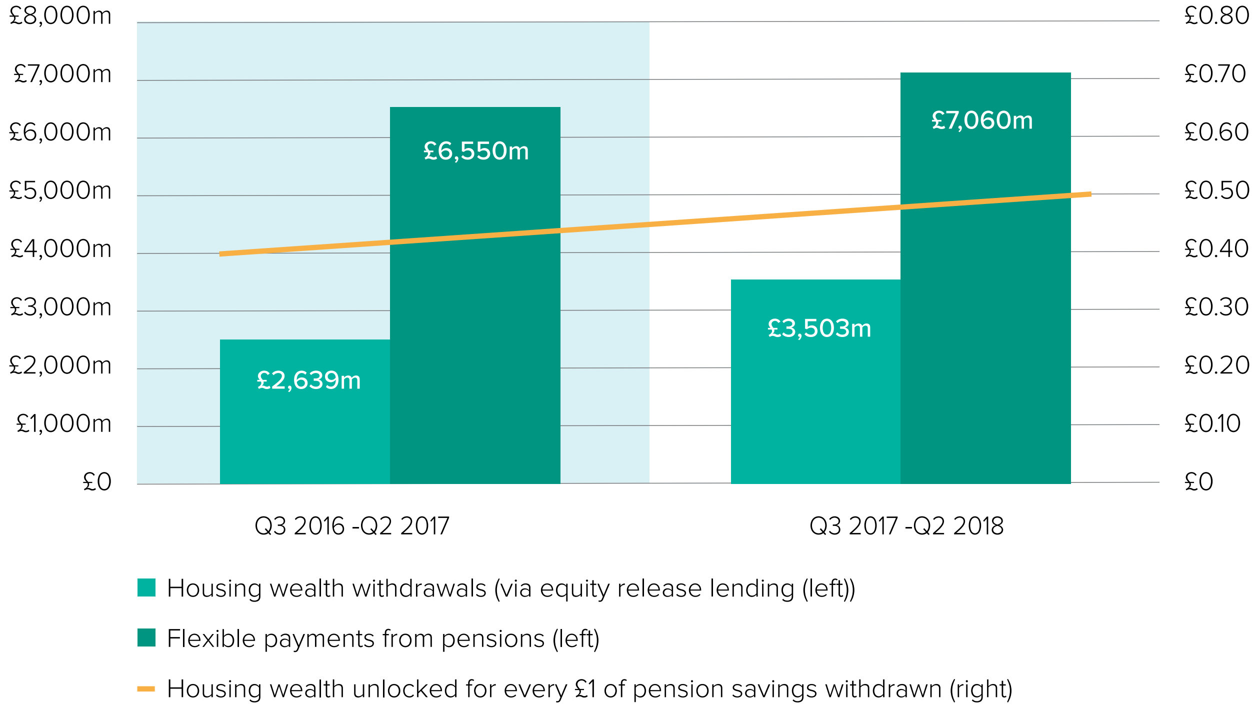
	July 2010 to June 2012	July 2012 to June 2014	July 2014 to June 2016	July 2016 to Dec 2017
Paying into an employer pension scheme	35%	39%	40%	40%
Investing in property	27%	28%	29%	29%
Paying into a personal pension scheme	12%	11%	11%	13%
Saving into an ISA (or other tax-free savings account)	11%	11%	9%	7%
Saving into a high rate savings account	7%	5%	5%	5%
Buying Premium Bonds	2%	2%	1%	1%
Investing in the stock market by buying stocks and shares	1%	1%	1%	1%
Other	4%	4%	3%	3%

Source: Office for National Statistics, Early Indicators from the Wealth and Assets Survey, August 2018

This illustrates the crucial role that housing wealth must play in the retirement landscape, both today and in years to come. With the shift from generous final salary workplace pensions to defined contribution schemes, millions of workers may find their income reduced when they retire and seek new solutions to improve their outlook.

It is important that homeowners have a choice of products and the right advice and guidance to make the most of their wealth and assets in later life. Housing wealth offers one solution and in recent years has entered the mainstream of financial planning among over-55s. The latest industry data shows for every £1 of savings withdrawn via flexible pension payments in the last 12 months, 50p of housing wealth was unlocked via equity release – up from 40p a year earlier.

Comparing equity release and flexible pension payments



Source: Equity Release Council lending activity, HMRC flexible payments from pensions

Demand for equity release is likely to continue to rise as more people look to supplement their savings and help meet pressing social needs, including mounting care costs and giving help to younger generations.

Innovation in the equity release market in recent years has also made products increasingly flexible and attractive – not just as a way for older homeowners to meet their own financial needs, but to provide a helping hand for younger relatives to get a foot on to the property ladder by gifting a 'living inheritance'.

The number of households in England purchased via a gift or loan from family or friends recently reached a post-2007/8 high of 1.1m, reinforcing the importance of the transfer of wealth from one generation to the next.

Equity release provides one route to achieve this, and interest payment or inheritance protection options can help to ensure there is further value remaining in the home which can be left as a traditional inheritance when the homeowner passes away or moves into care.

Use of a gift or loan from family or friends for purchase of current property

	2008 - 2009	2009 - 2010	2010 - 2011	2011 - 2012	2012 - 2013	2013 - 2014	2014 - 2015	2015 - 2016	2016 - 2017
Number of owner-occupied households	749,000	821,000	828,000	900,000	910,000	954,000	1,089,000	1,031,000	1,094,000
Percentage of owner-occupied households	5.3	5.9	6.0	6.5	6.6	7.0	7.9	7.5	7.9

Source: English Housing Survey data, 2008-09 to 2016-17

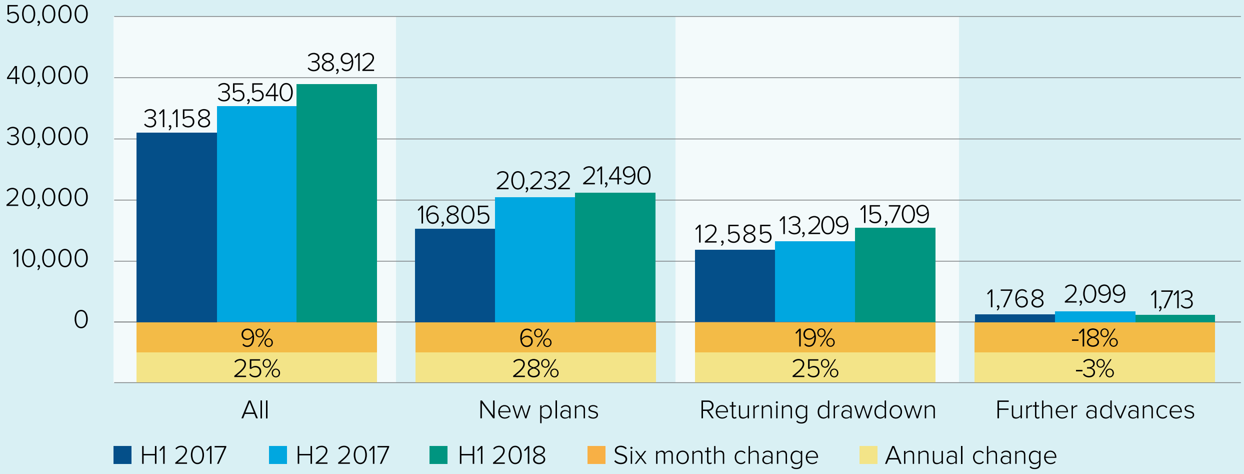
Market activity

New and returning customer numbers grow while further advance activity quietens

A total of 38,912* households aged 55 and over used equity release products from members of The Council to access some of their property wealth during H1 2018. This included 21,490 new plans agreed by customers, up by 28% from 16,805 a year earlier.

A further 15,709* returning drawdown customers made withdrawals from their agreed reserve funds between January and June, up 25% year on year. In contrast, fewer existing customers agreed further advances on existing plans – 1,713 compared to 1,768 a year earlier and 2,099 in the second half of 2017 – as fewer customers found themselves with a need to increase their loan.

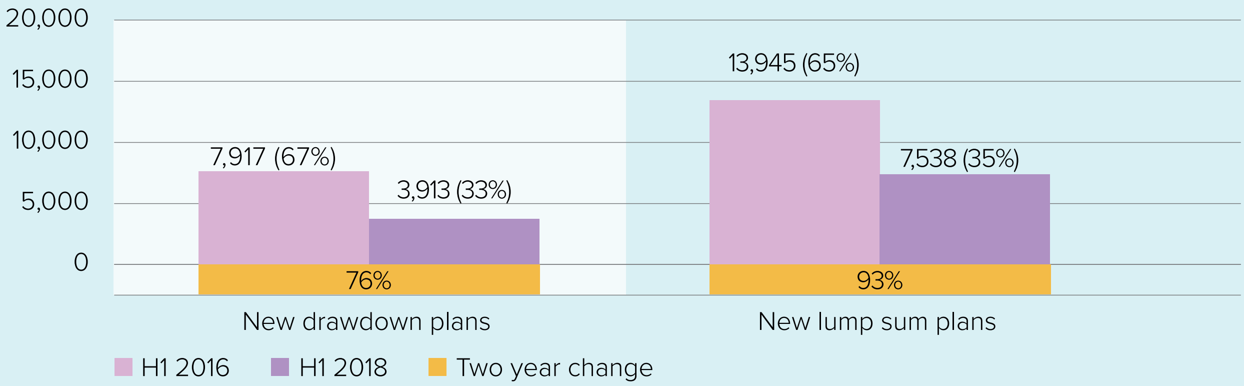
Trends in equity release customer numbers



The number of new plans agreed in H1 exceeded the entire size of the market in 2014 and represented an 81% increase since H1 2016. Activity among new customers has increased during every half-year period in the intervening two years, as equity release and housing wealth have taken up a mainstream position among the products and assets that form part of modern retirement planning.

Two thirds of new customers (65%) opted for drawdown lifetime mortgages in H1, while 35% chose lump sum lifetime mortgages and a small number (<1%) agreed home reversion plans. This is a slight shift in preference towards lump sum products since H1 2016, when 33% of new customers made the same choice and 67% opted for drawdown.

Trends in product choices



Product trends

Product options more than double in two years

The growing base of equity release customers in recent years has been met with a greater number of product choices and flexibilities – helping to meet homeowners' increasingly complex needs in later life. As of August 2018, 139 product options were available to consumers, more than double the number (58) seen two years ago. The range of product options has grown by over 78% in the last year alone from 78 in August 2017.

Today's equity release products also offer greater flexibilities thanks to ongoing competition and innovation in the sector. Four in five (80%) product options offer consumers the choice to make ad-hoc, penalty-free voluntary or partial repayments of their loan, up from 68% a year ago. There has also been an increase in products offering fixed early repayment charges (ERCs), from 49% in August 2017 to 51% in August 2018.

Almost half of product options (45%) offer downsizing protection which allows customers to downsize to a smaller property and repay the loan, without incurring any ERC. Inheritance protection, which allows customers to ring-fence a section of their housing wealth as a guaranteed minimum amount to pass on to the next generation, regardless of the total interest accrued – is offered by 46% of products.

Equity release product options and features

	Product options with this feature - Aug 2017	Product options with this feature - Aug 2018
Voluntary/partial repayments	68%	80%
Drawdown facilities	52%	43%
Inheritance guarantee	51%	46%
Fixed ERC	49%	51%
Downsizing protection	45%	45%
Sheltered/age restricted accomodation	42%	33%
Interest payments	10%	16%
Total number of product options available	**78**	**139**

Source: product data supplied by Key

Year-on-year fall in average interest rates

The average interest rate for equity release products was 5.22% as of July 2018, down from 5.27% in July 2017 and from 5.96% a year earlier, as increased product options come with lower pricing driven by greater competition in the sector.

While the latest average rate is slightly higher than the 5.14% seen in January 2018, the widening product range has brought an increase in lower-priced options. Two in five (42%) products carried a rate below 5% in July 2018, compared with one in three (35%) a year earlier.

Comparing average rates by customer rather than by product shows that the typical new customer in H1 2018 had an interest rate of 4.62%, down from 4.67% in H2 2017**: more than half a percentage point lower than the average product rate.

The average lump sum customer secured a rate of 4.87%, down from 5.31% in H2 2017, while the average new drawdown customer's rate was 4.47% on a par with H2 2017** – with these rates guaranteed to be fixed or capped for life by virtue of the Equity Release Council's product standards.

Personal borrowing rates tracker

Average product rates (%)	Jul-16	Jan-17	Jul-17	Jan-18	Jul-18	Annual change	Two year change
Overdrafts	19.68	19.71	19.71	19.67	19.68	-0.03	0.00
Credit cards	17.96	17.96	17.96	17.92	18.30	+0.34	+0.34
Personal loans (£5k)	9.19	9.45	8.04	8.33	7.79	-0.25	-1.4
Equity release	5.96	5.45	5.27	5.14	5.22	-0.05	-0.74
5 year fixed rate mortgage - 95% LTV	4.65	4.58	4.67	4.50	4.30	-0.37	-0.35
SVR mortgages	4.55	4.49	4.51	4.24	4.06	-0.45	-0.49
Personal loans (£10k)	4.13	3.69	3.79	3.85	3.76	-0.03	-0.37
2 year fixed rate mortgage - 95% LTV	3.85	3.62	4.07	3.83	3.85	-0.22	0.00
10 year fixed rate mortgage - 75% LTV	3.05	2.93	2.77	2.66	2.74	-0.03	-0.31
5 year fixed rate mortgage - 75% LTV	2.51	2.22	1.97	1.98	2.04	+0.07	-0.47
3 year fixed rate mortgage - 75% LTV	2.09	1.75	1.81	1.70	1.83	+0.02	-0.26
2 year fixed rate mortgage - 75% LTV	1.72	1.45	1.41	1.53	1.76	+0.35	+0.04

Source: Equity Release Council analysis of Moneyfacts data/Bank of England. Rate changes measured in basis points (bps). Average equity release rates exclude products which do not meet the full Equity Release Council product standards.

Product features explained

Voluntary/partial repayments – allows ad hoc or regular repayments to be made, typically up to 10% of the initial loan per year, with no early repayment charge (ERC). Helps customers to minimise the build-up of interest and even reduce the loan over time.

Drawdown facilities – allows customers to withdraw money in stages rather than taking a single amount all in one go. Interest is only applied when it is withdrawn – keeping costs down.

Inheritance guarantee – reduces the maximum loan amount but enables a fixed percentage of the property value to be ring-fenced as a minimum inheritance, regardless of the total interest accrued by the loan.

Fixed ERC – early repayment charges which are a fixed percentage of the initial loan during a set period of time. Typically, they decrease on a sliding scale. Once the fixed period has ended the customer can repay the loan in full without an ERC.

Downsizing protection – allows customers to downsize to a smaller property and repay the loan – either voluntarily or if the new property does not fit providers' criteria – without incurring an ERC. Typically there is a qualifying period of five years before this feature applies.

Sheltered/age restricted accommodation – some plans can be secured against sheltered or age restricted properties, subject to the provider's specific criteria at the time.

Interest payments – allows for either full or partial interest repayments to be made each month, which either stops or reduces the interest being rolled up on to the loan. There is no risk of repossession if payments are missed as customers can stop monthly interest payments and revert to interest roll-up at any time.

Repayment flexibilities for significant life events and changes of circumstance – a number of lenders have now introduced a feature for joint borrowers whereby, if either one passes away or moves permanently into long term care, the borrower/s can repay the loan within three years if they wish to do so without any early repayment charge.

Lifetime mortgage rates reflect the additional features and protections offered above and beyond typical homeowner mortgages. For products offered by members of The Council, this involves a guaranteed fixed or capped rate of interest for an indefinite term until the plan is repaid, typically when the customer passes away or moves into permanent care; the continuing right to tenure without regular repayments being required; and protection for the customer against negative equity with the provider absorbing this risk.

New customer trends

Average ages of drawdown and lump sum lifetime mortgage customers converge

The average age of new customers during H1 2018 was the closest seen to date across the two main categories of lifetime mortgages. At just over 68 years old, the average new lump sum customer was broadly in line with that seen over the last three years. The average drawdown customer was almost two years older and just short of their 70th birthday.

Average age of new customers

	H1 2015	H2 2015	H1 2016	H2 2016	H1 2017	H2 2017**	H1 2018
New drawdown plans	71.5	70.9	71.2	71.7	71.5	69.8	69.9
New lump sum plans	67.7	67.2	67.7	68.2	68.0	68.6	68.1

This convergence over the last year suggests more new customers are opting for drawdown over lump sum products when taking out equity release at a younger age. This choice can help to limit the total amount owed: the average drawdown plan involves releasing a smaller amount of equity initially than the average lump sum plan, with interest only charged on funds as they are withdrawn. Nearly three in five (56%) new equity release plans taken at age 55-64 are now drawdown, up from 48% in H1 2016.

As a result, the general trend whereby the majority of customers opt for drawdown arrangements is now reflected across all age groups. The preference for drawdown plans increases to two in three aged 65-74, three in four aged 75-84 and nearly four in five aged 85+.

Product choices by age group

	55-64	65-74	75-84	85+
New drawdown plans	56%	66%	75%	77%
New lump sum plans	44%	34%	25%	23%

Increase in single plans taken out by male customers

Overall the types of new plans agreed remained broadly unchanged year-on-year, with couples jointly choosing to release equity from their homes continuing to account for around three in five new plans across both drawdown and lump sum categories.

Single plans taken out by female customers made up a larger share of activity than those taken out by male customers. However, as the market has grown over the last year, the biggest percentage change in the number of new plans agreed has been among single plans to male customers. These made up around one in seven new drawdown products and one in six new lump sum products in H1 2018.

Trends in new plans agreed - H1 2018

	Annual change in number of new plans			Share of new plans agreed		
	Jointly held plans	Single plans -male	Single plans -female	Jointly held plans	Single plans -male	Single plans -female
New drawdown plans	32%	38%	21%	61%	14%	26%
New lump sum plans	24%	28%	23%	60%	16%	24%

Lending remains stable as customers draw on less than a third of their housing wealth

The equity release market in H1 2018 continued to attract interest from customers with greater housing wealth at their disposal than was the case historically. The average house price among both lump sum and drawdown customers was noticeably higher than in the equivalent period during 2015 and 2016.

Both averages for H1 2018 were above the latest UK average house price of £228,384 according to the June 2018 UK House Price Index – indicating that the market is attracting customers who may have above-average housing wealth but at the same time find themselves cash-poor in later life.

Average house price of new customers

Average house price	H1 2015	H2 2015	H1 2016	H2 2016	H1 2017	H2 2017**	H1 2018
New drawdown customers	£304,340	£301,971	£319,600	£341,758	£358,392	£347,787	£353,383
New lump customers	£242,476	£264,397	£282,668	£296,022	£306,414	£321,227	£312,302

Across both product types, the average customer continued to draw on proportionate amounts of housing wealth below the 50%+ maximum loan-to-values (LTV) available on the market. The average size of a lump sum plan was smaller in H1 2018 than in H2 2017, bringing the average loan-to-value down to 30.8%.

In contrast, the average drawdown plan increased, but customers continued to take less than a fifth (18.2%) of their total housing wealth as an initial advance – keeping the remainder in reserve, which limits the build-up of interest over the lifetime of their plan.

Average housing wealth withdrawals of new customers

	New drawdown plans			New lump sum plans		
	H1 2017	H2 2017**	H1 2018	H1 2017	H2 2017	H1 2018
Average house price	£358,392	£347,787	£352,802	£306,414	£321,227	£312,301
Average initial advance	£59,959	£63,569	£64,184	£95,386	£101,203	£96,207
Average extra reserves	£34,091	£36,061	£39,116	n/a	n/a	n/a
Average total LTV	26.2% (16.7%+9.5%)	28.6% (18.3%+10.4%)	29.3% (18.2%+11.1%)	31.1%	31.5%	30.8%

Returning customer trends

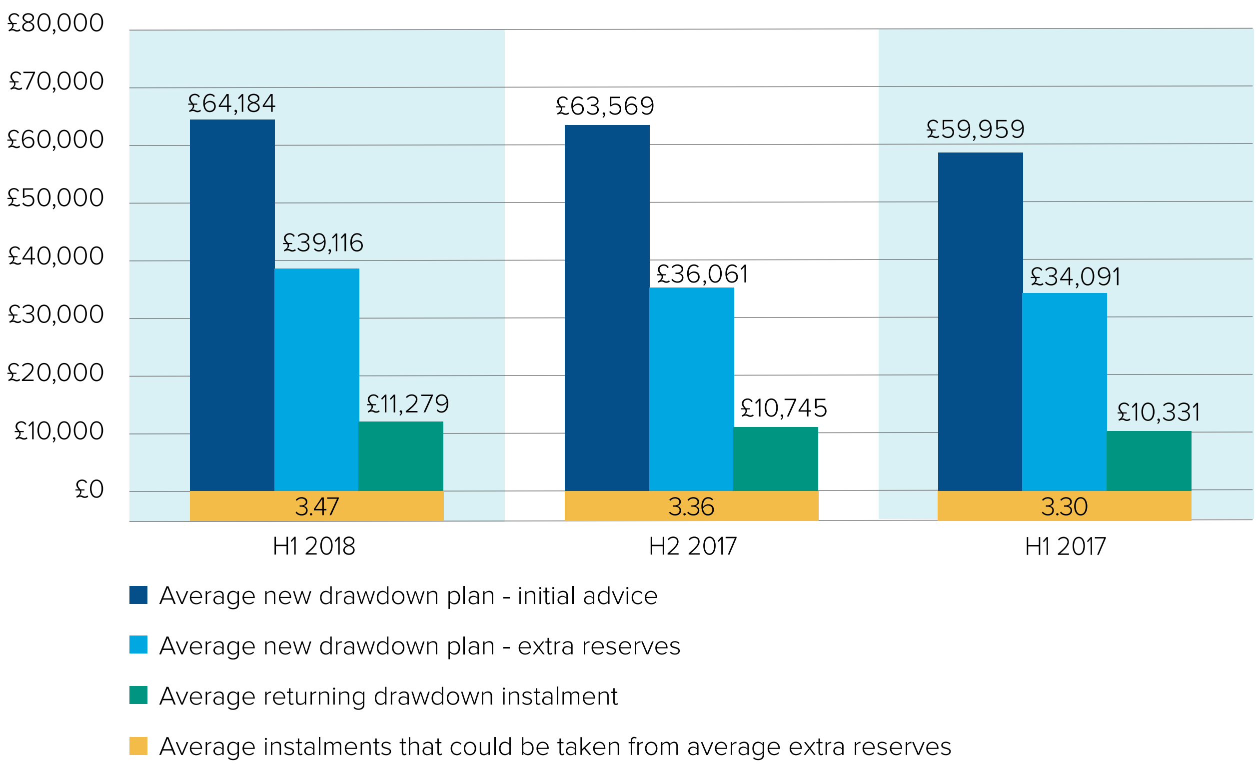
Drawdown customers keeping greater funds reserved for future use

The number of returning drawdown customers in H1 2018 rose 19% compared with the previous six months and 25% year-on-year as more existing customers made use of the option to dip into their housing wealth in stages over an extended period of time.

The average amount reserved by new drawdown customers for future use grew more year-on-year (15% or £5,025) than initial advances (7% or £4,225), suggesting that people were content to keep more funds in reserve for future use rather than pursue the maximum loan amount available up front.

With the average returning drawdown instalment standing at £11,279 in H1 2018, it meant that new customers kept enough in reserve to make nearly 3.5 withdrawals of this size, which can prove helpful as the financial needs change over the course of later life.

Comparing drawdown amounts across new and returning customers



The number of further advances agreed by existing customers was the lowest seen since H2 2016, with over half (58%) agreed by drawdown customers, 41% among lump sum customers and the remainder among home reversion customers.

Among drawdown customers that extended their plans, they also took more modest amounts (£22,093 as an initial withdrawal, plus £7,580 in reserve) than was the case a year earlier (£23,444 initially with £8,678 in reserve). Further advances on lump sum lifetime mortgages were broadly unchanged year-on-year, averaging £20,403 in H1 2018 compared with £20,024 in H1 2017.

About the Equity Release Council

The Equity Release Council is the representative trade body for the equity release sector with over 290 member firms and 870 individuals registered, including providers, regulated financial advisers, solicitors, surveyors and other professionals.

It leads a consumer-focused UK based equity release market by setting authoritative standards and safeguards for the trusted provision of advice and products. Since 1991, over 440,000 homeowners have accessed over £24bn of housing wealth via Council members to support their finances.

The Council also works with government, voluntary and public sectors, and regulatory, consumer and professional bodies to inform and influence debate about the use of housing wealth in later life and retirement planning.

Contact

Find out more about the Equity Release Council, its members and the products and services they provide by visiting www.equityreleasecouncil.com

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The Equity Release Council is a limited company, registered in London, England No: 2884568

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Methodology

The Equity Release Market Report is designed and produced by Instinctif Partners on behalf of the Equity Release Council. It uses aggregated data supplied by all active provider members of The Council to create the most comprehensive view of consumer trends and product uptake across the equity release industry.

The latest edition was produced in Autumn 2018 using data from new plans taken out in the first half of 2018, alongside historic data. All figures quoted are aggregated for the whole market and do not represent the business of individual member firms. Annual changes are rounded to the nearest percentage point while customer and lending data is reported to one decimal place.

*Data is collected on a quarterly basis so numbers may include some returning drawdown customers twice if they made multiple withdrawals in consecutive quarters.

** Indicates figures for H2 2017 have been revised owing to updated data being submitted.

For a comprehensive list of members, please visit The Council's online member directory.

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