Setting the standard in equity release

EQUITY RELEASE COUNCIL
Incorporating SHIP Standards

Equity Release Market Report

Spring 2015

www.equityreleasecouncil.com

Introduction

The third edition of the Equity Release Market Report comes at a time when the continued success of the sector is being driven by a range of factors.

On the one hand, many pension pots fall short of what's needed to sustain a comfortable later life and, as life expectancy rises, property wealth is emerging as one of the most dependable sources of funding for consumers aged 55 and over. On the other, the Mortgage Market Review (MMR) has meant that homeowners are finding it increasingly difficult to access residential mortgages beyond the age of 55, while many with interest-only mortgage loans are approaching the point of repayment with limited means of doing so.

In the search for funding, more and more people are using equity release to put their finances in order and enjoy a stable later life by boosting their income, paying down debts or bearing the weight of extra expenses. The money they have put into property often proves a good investment over time and releasing equity gives them the opportunity to access these funds in later life to enrich their lifestyle.

The burst of activity since summer 2014 has already been followed by confirmation of plans by household names to join the market this year. More new entrants are likely to follow and these developments will bring new choice and more innovation to benefit consumers. Our vision is to encourage flexibility while upholding the high standards of protection and advice that are already embedded within the industry.

April's pension reforms mean the subject of retirement funding is being pushed further than ever into the spotlight. There is no single solution to suit everyone – but to make the best use of their wealth and assets, every homeowner should have property wealth on their check-list as they plan for the future.

Nigel Waterson, Chairman, Equity Release Council

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Key findings

Market growth: activity levels reached their highest point since 2008 in the second half of 2014 with over 10,000 new plans agreed, up 12% on the first half of the year.

Customer ages: while the average age of customers continues to rise, the period from July to December saw a surge of interest from those aged 55-64. They accounted for 20% of new plans compared with 17% from January to June and focused their interest on lump sum products.

The figures suggest that restrictions on mortgage borrowing in later life are increasing the appeal of equity release, as is the fact that many interest-only mortgages are approaching their repayment date. Upcoming changes to the rules on accessing pension savings may also be having an early impact.

Product choices: drawdown lifetime mortgages remain the most popular product type, with growth of new drawdown plans outpacing lump sum plans by 13% to 10% in the second half of the year.

Housing wealth: although drawdown customers release just a sixth of their housing wealth initially, this amount (£46,356) is 85% larger than the typical single defined contribution (DC) pension pot.

Lump sum customers are releasing just over 28% of their housing wealth (£69,118): a sum that is 175% bigger than the average single pension pot.

Personal borrowing rates tracker: Having risen slightly during 2014, average rates dropped at the start of 2015 to return to levels last seen in January 2014.

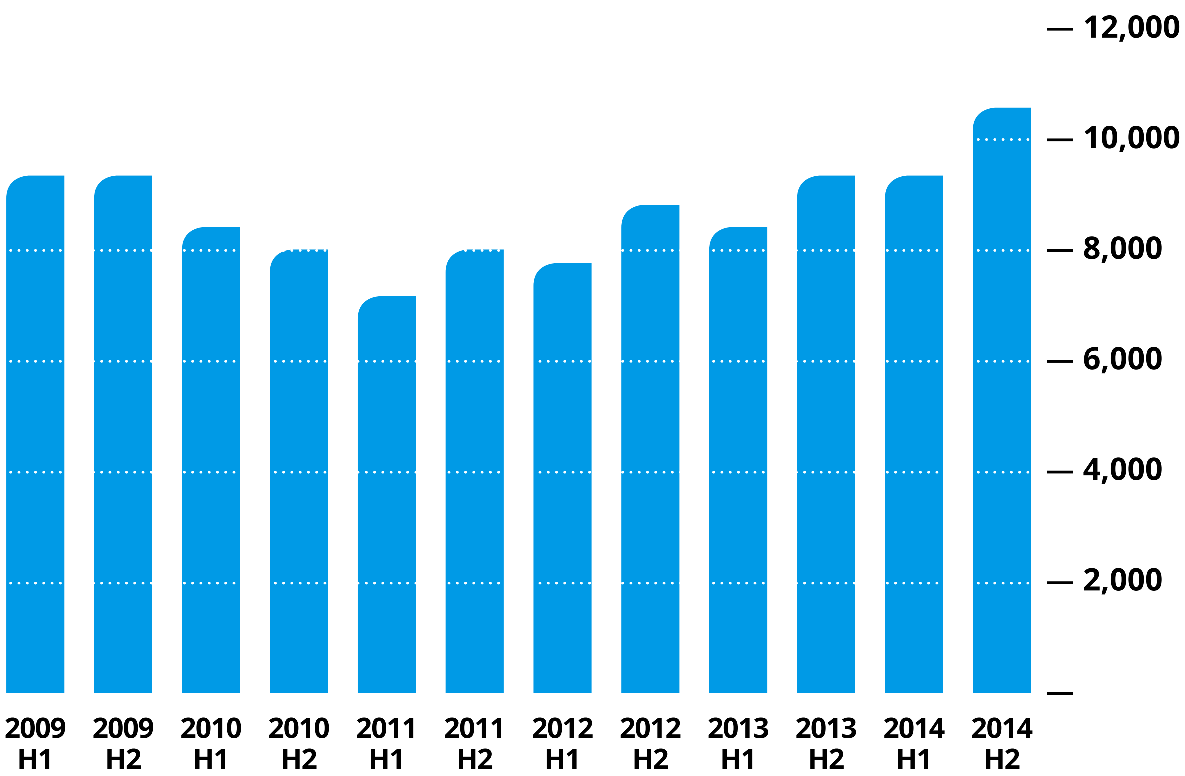
Market growth

Activity levels reach their highest point since 2008

Annual equity release lending reached the largest total on record (£1.38bn) in 2014, a 29% rise from £1.07bn in 2013 and 14% up on the previous high of £1.21bn recorded in 2007. Total customer numbers grew 13% from 2013 to 2014 as more than 21,000 people took out a new equity release plan last year: the most since 2008.

For the first time since the recession, activity levels between January and June matched the previous six months with over 10,000 new plans agreed. Importantly, for the fourth successive year, the period from July to December brought a further surge of activity with customer numbers up 12%. More new equity release plans were agreed in the second half of 2014 than in any other half year since 2008.

Growth of equity release customer numbers 2010-2014



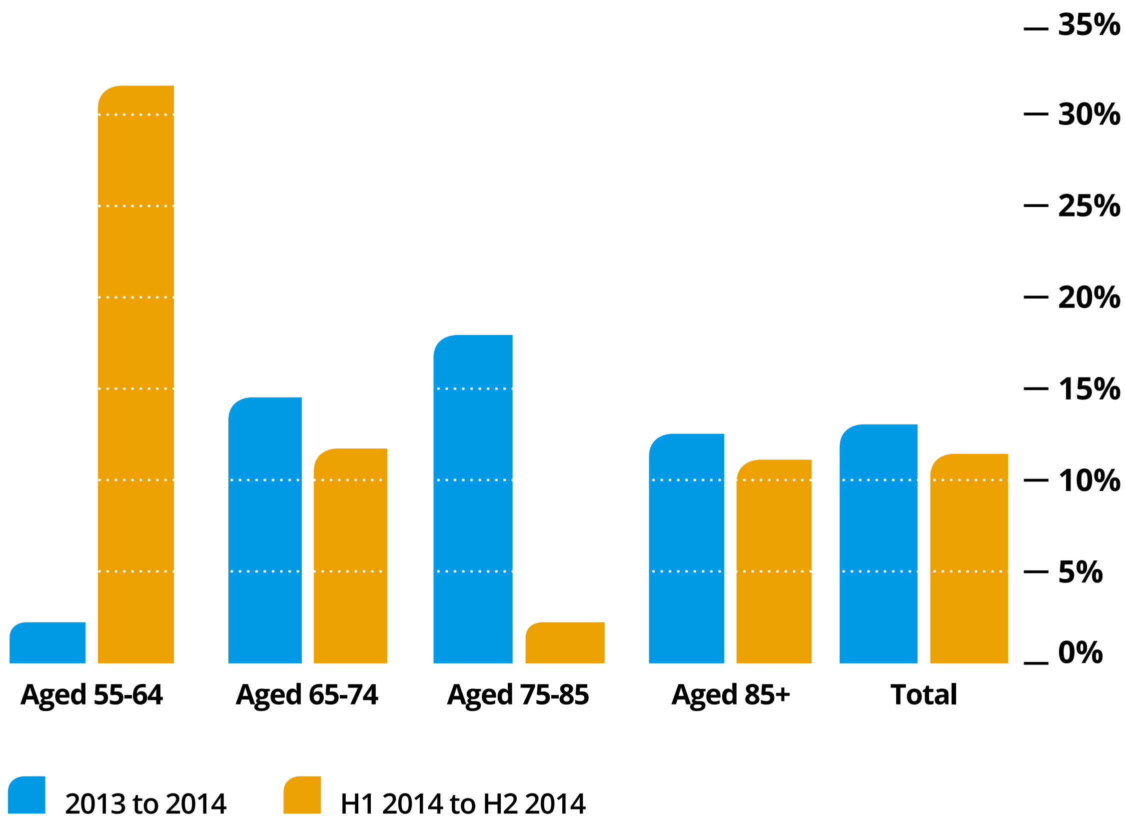
Customer ages

The typical customer is getting older – but the percentage of 55-64s has risen

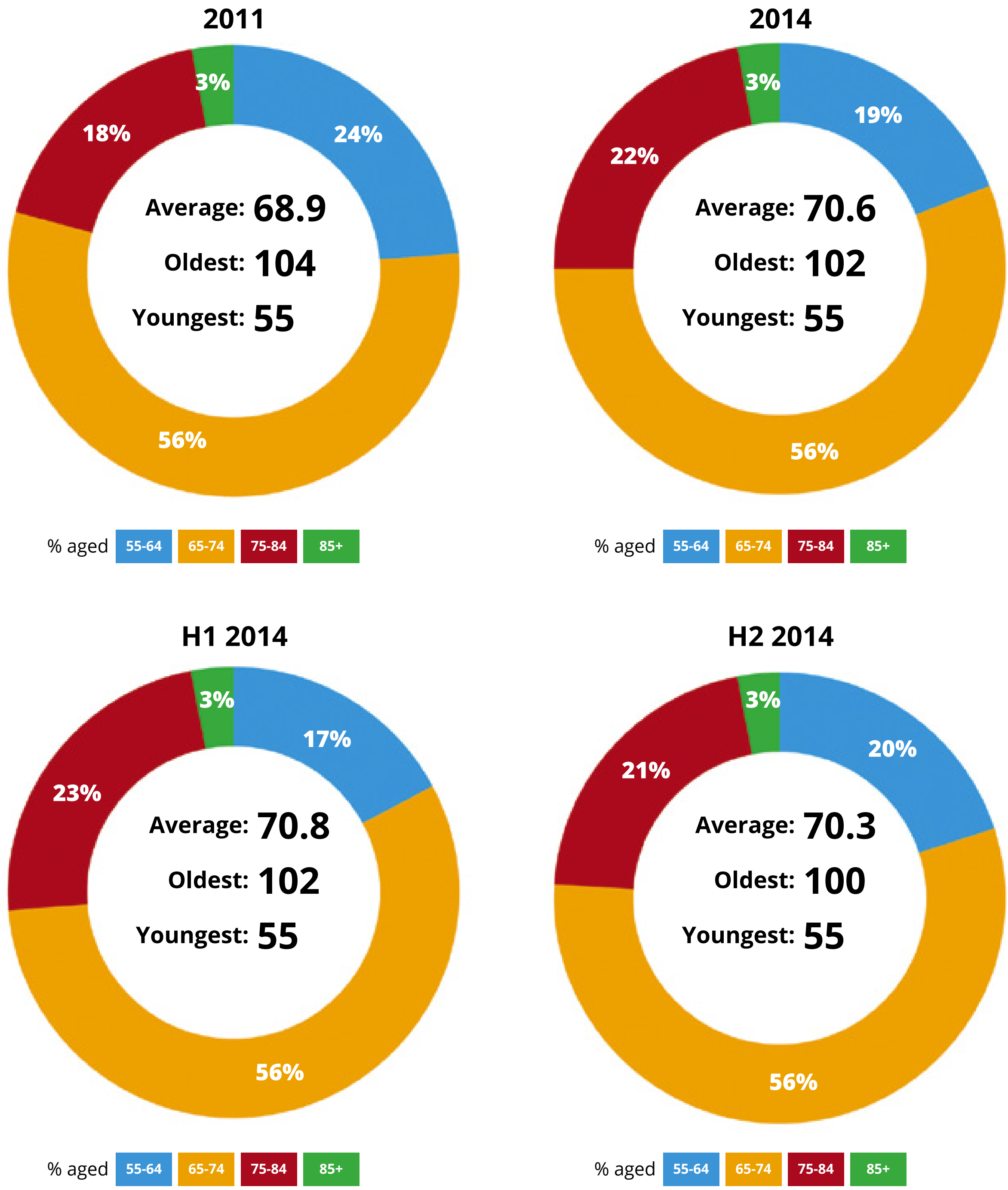
Annual growth in the market was driven by older borrowers. The 75-85 age group saw the biggest percentage increase in customer numbers (18%) from 2013 to 2014 while those aged 65-74 grew 15%. As a result, the average age of customers rose from 70 in 2013 to 71. Borrowers aged 75-85 accounted for 22% of activity in 2014, up from 18% in 2011.

However, comparing the first and second half of last year, the surge of activity between July and December was notable for more customers aged 55-64 entering the market. Just 17% of new customers fell into this age bracket in H1 2014, down from 21% in 2013 and 24% in 2011. However this rose again to 20% in H2 2014 and meant the total number of customers aged 55-64 was 32% higher in the second half of last year than the first.

Growth of equity release customer numbers by age group



Age breakdown of equity release customers



Percentages may not add up to 100% due to rounding.

Younger borrowers appeared to focus their attention on lump sum lifetime mortgages. The average age of a drawdown customer was consistent at 71.6 across the year. In contrast, lump sum customers' average age dropped by over a year from 68.8 in H1 to 67.6 in H2.

The greater appeal of lump sum products among younger borrowers, as 2014 wore on, is likely to be a sign of pressures emerging in the residential mortgage market. Following the MMR which took effect on 26 April, there have been reports of people finding it increasingly difficult to access mortgage finance later in life – particularly where the duration of the loan might take it past their normal retirement age.

At the same time, a high number of borrowers with interest-only mortgages are approaching their final repayment date. For many who have no or limited resources for a repayment vehicle, using equity release to pay off an existing mortgage is a logical solution. This trend has prompted suggestions that more lenders will launch these products during 2015 with their existing interest-only customers in mind.

There may also be instances where some people used equity release to release a lump sum last year to meet an immediate need rather than access their pension savings ahead of 6 April 2015, when the new pension freedoms kick in.

Average customers age per product

	Lump sum	Drawdown
H1 2014	68.8	71.6
H2 2014	67.6	71.6

Case study: clearing an interest-only mortgage

Margaret and Edward Broomhall withdrew a lump sum of £30,000 from their property in North Wales in November 2014 to pay off a shortfall of almost £24,000 from an interest-only mortgage, which was due for repayment in March 2015. It had been causing concern as they had no idea how they would meet the deadline, having only switched to an interest-only mortgage when redundancy made it impractical to keep capital repayments on their previous loan.

They began speaking to equity release advisers at Key Retirement having first heard about this solution ten years previously. Having now paid off their mortgage, they have used the remainder of their equity release plan to make some home improvements and car repairs, so they do not need to worry about these in future.

Mrs Broomhall commented:
"We'd definitely recommend equity release to anyone in a similar situation to us. Our adviser was happy to answer all of the queries we had to address, so we could be sure we were making the right decision. It has meant all our debts are comfortably paid off – something we have no idea how we'd have achieved otherwise.

"The difference it has made to our peace of mind and financial security is unbelievable. We can fully relax now, knowing that we get to stay living in our home throughout retirement."

Product choices

Popularity of drawdown products accelerates

Two-thirds of customers (66%) chose a drawdown lifetime mortgage during 2014 while 34% opted for lump sum products and a small percentage (<1%) took out home reversion plans. This split of customers was consistent with 2013 as both drawdown and lump sum volumes grew evenly with a consistent 13% annual rise in new plans arranged.

However, interest in drawdown products accelerated ahead of lump sum products during the second half of 2014. The overall 12% growth in customer numbers from H1 to H2 was driven by a 13% rise in new drawdown plans ahead of a 10% rise in lump sum plans.

Product choices among equity release customers

	2013	2014
Lump sum	34%	34%
Drawdown	66%	66%
Home reversions	<1%	<1%

	H1 2014	H2 2014
Lump sum	35%	34%
Drawdown	65%	66%
Home reversions	<1%	<1%

The relative popularity of drawdown shows the appeal of using housing wealth as an extra source of regular funds, especially among older consumers who are more likely to have retired already. The flexibility to withdraw equity as and when they need it then allows people to replace earnings from employment, boost income and fund significant expenses while also limiting the build-up of interest owed.

This is particularly relevant where someone's pension assets fall short of supporting the required standard of living, providing enough capital for one-off costs or lasting throughout retirement. This last factor may play an increasing role once the new pension reforms take effect on 6th April, depending how carefully people tread once they are free to enjoy greater access to their savings pots.

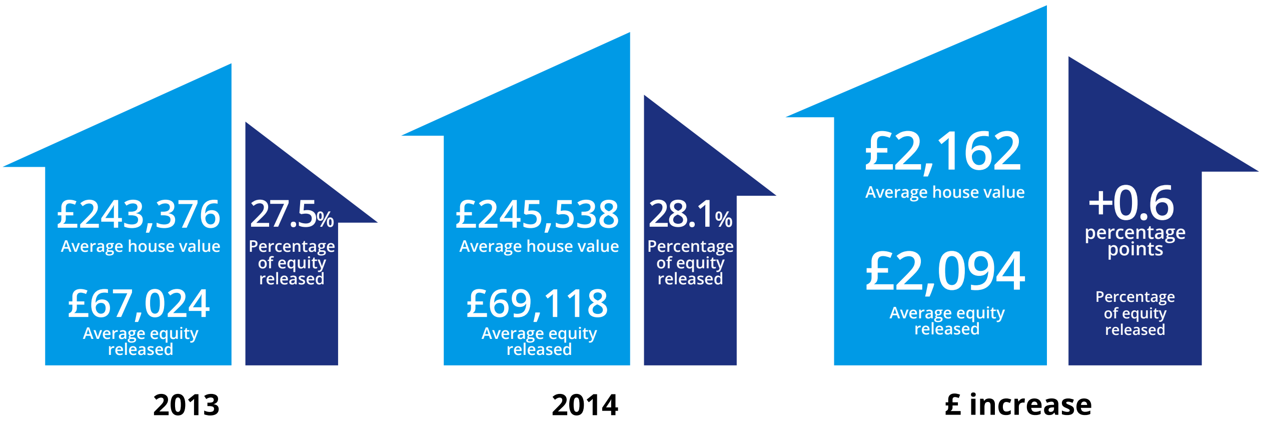
Housing wealth

First drawdown sum is 85% larger than the typical DC pension pot

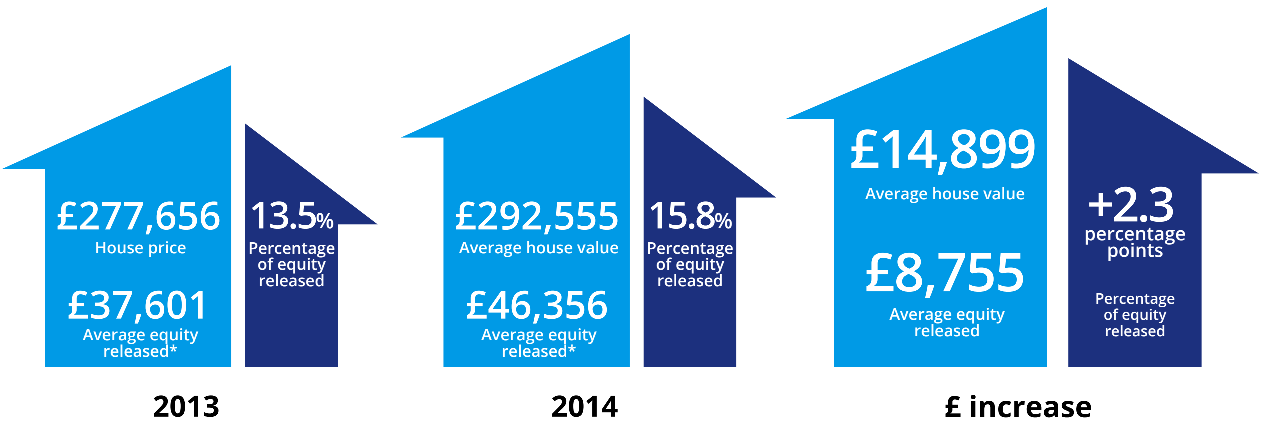
As in 2013, drawdown customers typically had more valuable homes in 2014 than those choosing a lump sum (£292,555 compared with £245,538). The initial drawdown amount grew by £8,755 (23% from 2013) to an average of £46,356 (2014), yet this remains less than a sixth of their available housing wealth (15.8%).

The average lump sum amount also grew slightly by £2,094 (3%) from 2013 to 2014. This is a noticeably larger share of the average lump sum customer's housing wealth (28.1%), but still well below the maximum 52% that customers can release.

Customers choosing new lump sum plans



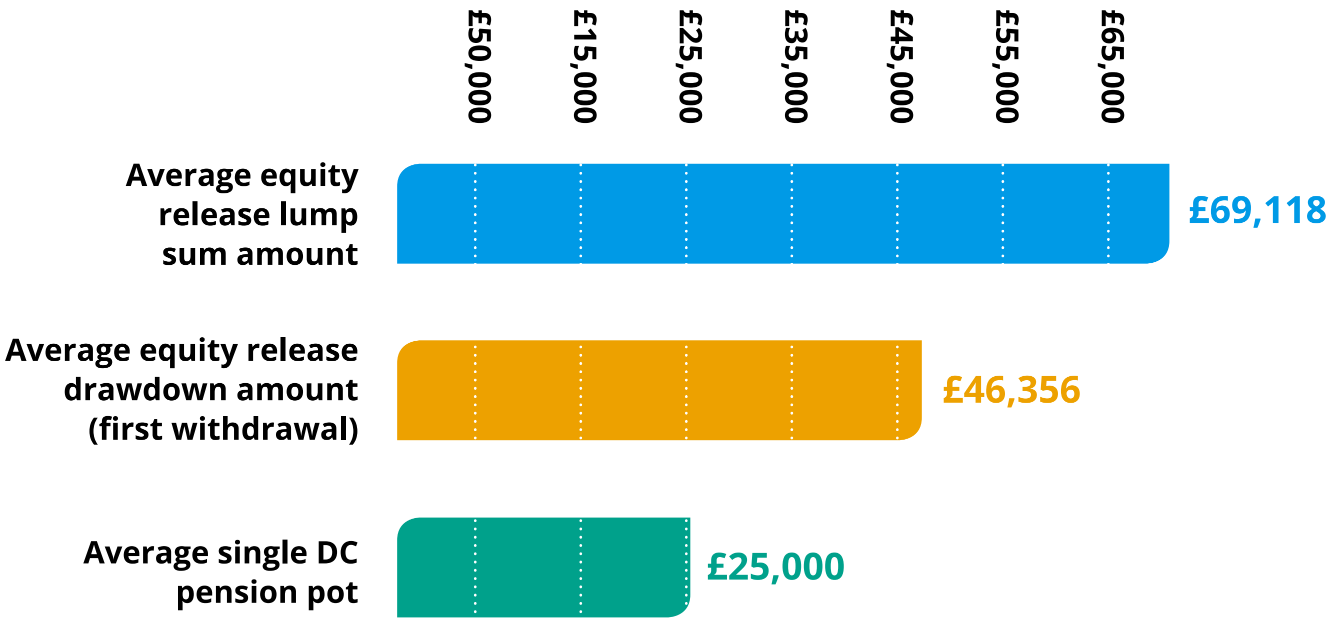
Customers choosing new drawdown plans



**Initial withdrawal only*

In both cases, the average amount of equity released is significantly more than the average single DC pension pot of £25,000, according to 2013/14 data from The Pensions Regulator. The average initial drawdown last year was worth 85% more than this amount, while the average lump sum plan was worth 176% more: highlighting the importance of housing wealth as a source of funding in later life.

How the typical amounts of equity released compare to average pension pots



Sources: *Equity Release Council, The Pensions Regulator*

Redemptions

There were two new drawdown plans taken out for every new lump sum plan in 2014, and this split was mirrored in the breakdown of redemptions last year for plans repaid early: 62% were drawdown plans, 37% were lump sum plans and 1% were home reversion plans.

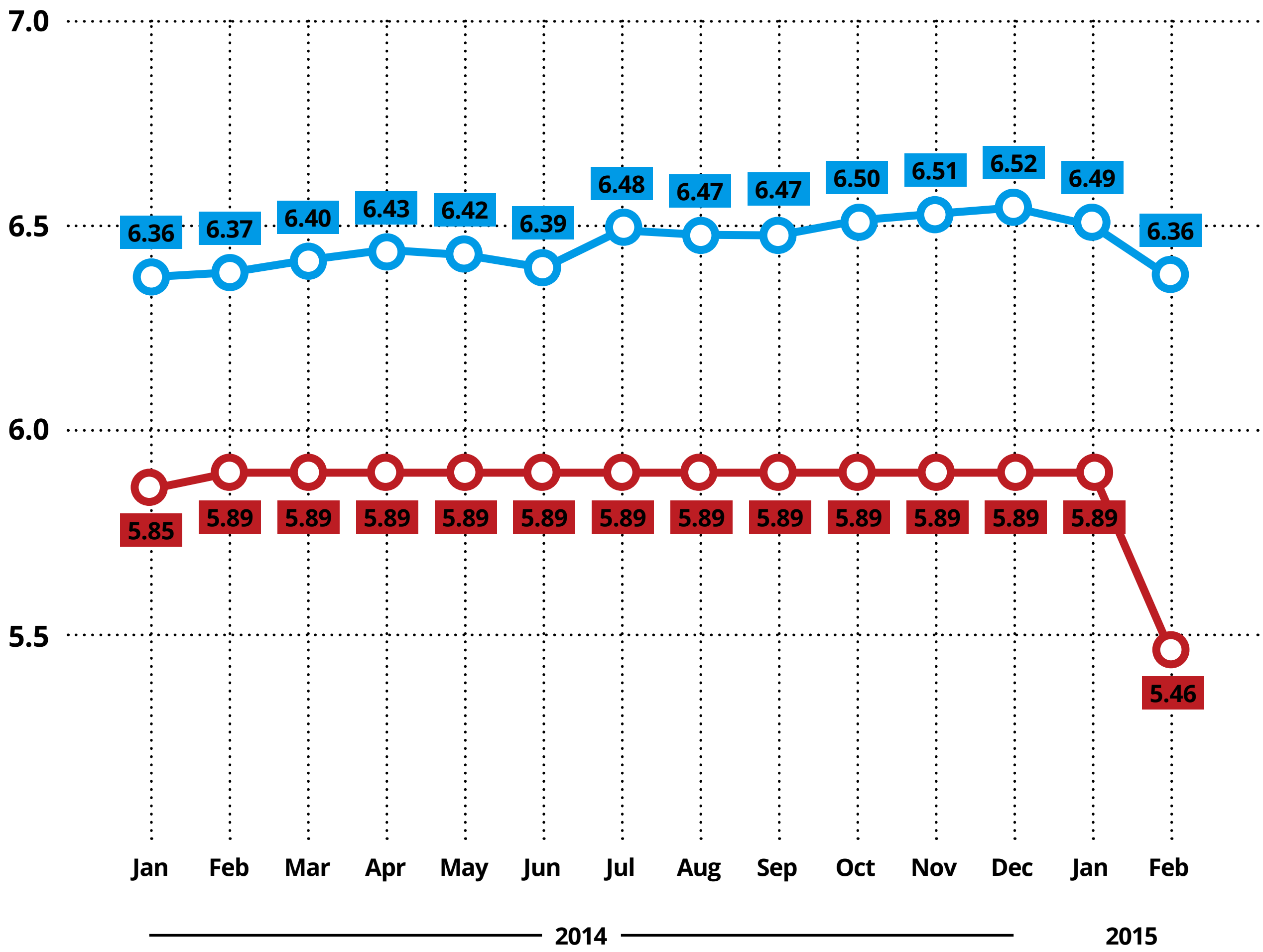
The trend was reversed among plans that ended in 2014 having lasted to natural "triggered" repayment. Of these, 58% were lump sum, 39% were drawdown and 3% were home reversions. The majority (81%) were repaid when the customer passed away while the remaining 19% were repaid when they moved into permanent care.

Personal borrowing rates tracker

Average equity release rates drop at the start of 2015

Average equity release rates rose slightly over the course of 2014 but have dropped back in recent months, meaning February 2015's average of 6.36% was level with that of January 2014. The lowest rate on the market was consistent during 2014 and has also dropped in recent months to 5.46%.

Graph: average and best buy equity release rates



Source: Moneyfacts, February 2015. Average equity release rates exclude products which are not recognised by The Council and exclude protections such as the guaranteed right to tenure and no negative equity guarantee.

Equity release rates appear higher than residential mortgages because they are funded differently, protect consumers against negative equity and guarantee them the right to tenure for an unlimited period of time, until they pass away or move into permanent care.

Compared with common forms of unsecured credit, the average equity release rate is more than three times cheaper than the average overdraft rate and almost three times cheaper than the typical credit card rate.

How the borrowing options for over-55s compare

Product	Average rate*	Protection against negative equity	Guaranteed right to tenure	Availability beyond the age of 55	Fixed repayment date	Fixed or variable rates
Overdrafts	19.66%	n/a	n/a	Y	N	Variable
Credit cards	17.83%	n/a	n/a	Limited	N	Variable
Personal loans (£5k)	9.18%	n/a	n/a	Limited	Y	Fixed or variable
Equity release (average)	6.49%	Y	Y	Y	N	Fixed indefinitely
Equity release (best buy)	5.89%	Y	Y	Y	N	Fixed indefinitely
Personal loans (£10k)	4.79%	n/a	n/a	Limited	Y	Fixed or variable
SVR mortgages	4.48%	N	N	Limited	Y	Variable
10 year fixed rate mortgages (75% LTV)	3.93%	N	N	Limited	Y	Fixed for ten years
5 year fixed rate mortgages (75% LTV)	3.09%	N	N	Limited	Y	Fixed for five years
2 year fixed rate mortgages (75% LTV)	2.01%	N	N	Limited	Y	Fixed for two years

Source: *Bank of England, Moneyfacts, January 2015*

About the Equity Release Council

The Equity Release Council (The Council) was formed in May 2012 to create a united voice for the industry and build on the legacy of Safe Home Income Plans (SHIP), founded in 1991 as the trade body for equity release product providers.

Since the expansion and rebranding of SHIP as the Equity Release Council, its membership now stands at over 350 and includes qualified financial advisers, solicitors, surveyors, product providers, intermediaries and other industry professionals – each committed to support the Council's Statement of Principles, and related standards.

The robust standards of consumer protection upon which SHIP was founded have underpinned the development of a flourishing sector which has served over 300,000 consumers, loaned more than £14.5bn since 1994 and enjoys exceptional customer satisfaction rates.

The Council and its members work to ensure customers can safely use this form of borrowing to support their retirement income. In addition, The Council aims to boost public and political awareness of equity release as a solution to many of the financial challenges affecting people over the age of 55 across the UK.

Find out more about equity release product features by visiting ***www.equityreleasecouncil.com/what-is-equity-release***

Consumer protections

Equity release customers enjoy three levels of protection, encompassing a structured financial advice process, face-to-face legal advice and product safeguards set out in the **SHIP standards** since 1992.

The Council's Standards Board oversees the **Statement of Principles** and standards which members sign up to, instilling confidence in their products and advice. This ensures customers:

- retain **the right to remain in their property for life**, provided the property remains their main place of residence.
- receive a 'no negative equity' guarantee so they will **never owe more than the value of their homes or leave any debt behind** – regardless of changing property prices.
- receive **fair, simple and complete presentations** of the plans they are considering taking out – including any benefits and limitations of the product, and obligations they must adhere to. This includes an **outline of all potential and associated costs.**
- have the right to choose an independent **solicitor of their choice** to carry out associated legal work.
- have the right to **move their plan to another suitable property** without being subject to any financial penalty.
- receive a certificate recognised by The Council and signed by their solicitor, which **clearly states the main cost to the householder's assets and estate** – for example, how the loan amount will change or whether part or all of the property is being sold.

Methodology

The Equity Release Market Report is designed and produced by The Wriglesworth Consultancy on behalf of the Equity Release Council. It uses aggregated data supplied by 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 February 2015 using data from 90% of new equity release plans taken out last year, alongside historic data from over 37,000 new plans up to 2013. All figures quoted are aggregated for the whole market and do not represent the business of individual members. For a comprehensive list of members, please visit The Council's online member directory.

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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