Setting the standard in equity release

Equity Release Market Report

Spring 2016

www.equityreleasecouncil.com

Contents and key findings

Foreword

Our latest Market Report comes at the start of a year which marks 25 years of safe equity release for UK consumers, underpinned by industry Standards since 1991. The work of the Equity Release Council (The Council) and its members has ensured a safe and reliable market, which offers an increasing number of ways for people to unlock their housing wealth in later life while retaining the right to remain in their homes.

As this latest analysis of market trends shows, equity release products continue to prove versatile in helping customers meet a range of financial needs before, at and during retirement. For some, this means relieving the pressure of an outstanding mortgage or personal debt, or funding domiciliary care needs so people can remain in the home they love as they grow older.

For others, unlocking housing wealth offers a means to provide a 'living inheritance'; pay for home improvements; or simply enjoy more financial freedom during retirement: whether that means travelling the world or exploring other interests closer to home.

There is growing recognition from UK consumers, regulators and politicians that housing wealth can – and should – play a greater role in financial planning for retirement. Of the £17bn of funding provided to homeowners over the age of 55 by our members since 1991, more than a third has been unlocked in the last five years alone. The second half of 2015 saw lending activity continue to break new ground, while leaving the firm impression that there continues to be a growing need for these products.

Increasing choice from new and existing providers is driving the appeal of equity release, with product features emerging which allow more freedom to make capital repayments and pay interest on some loans. We expect this trend to continue, and the challenge for industry and regulators is to ensure product innovation is combined with protection and long-term sustainability.

Building closer relationships with the standard mortgage and later life markets is also crucial so that, where appropriate, more consumers can access specialist financial and legal advice to make an informed choice about equity release. It is impossible to overstate the importance of good advice, as new products appear on the market and consumer demand evolves.

These are exciting times for all involved in a market where The Council and its members have led the way in instilling confidence over the last 25 years. This work will continue as we seek to uphold best practice and continue delivering positive outcomes for a wider range of consumers.

Nigel Waterson, Chairman of the Equity Release Council

Market trends

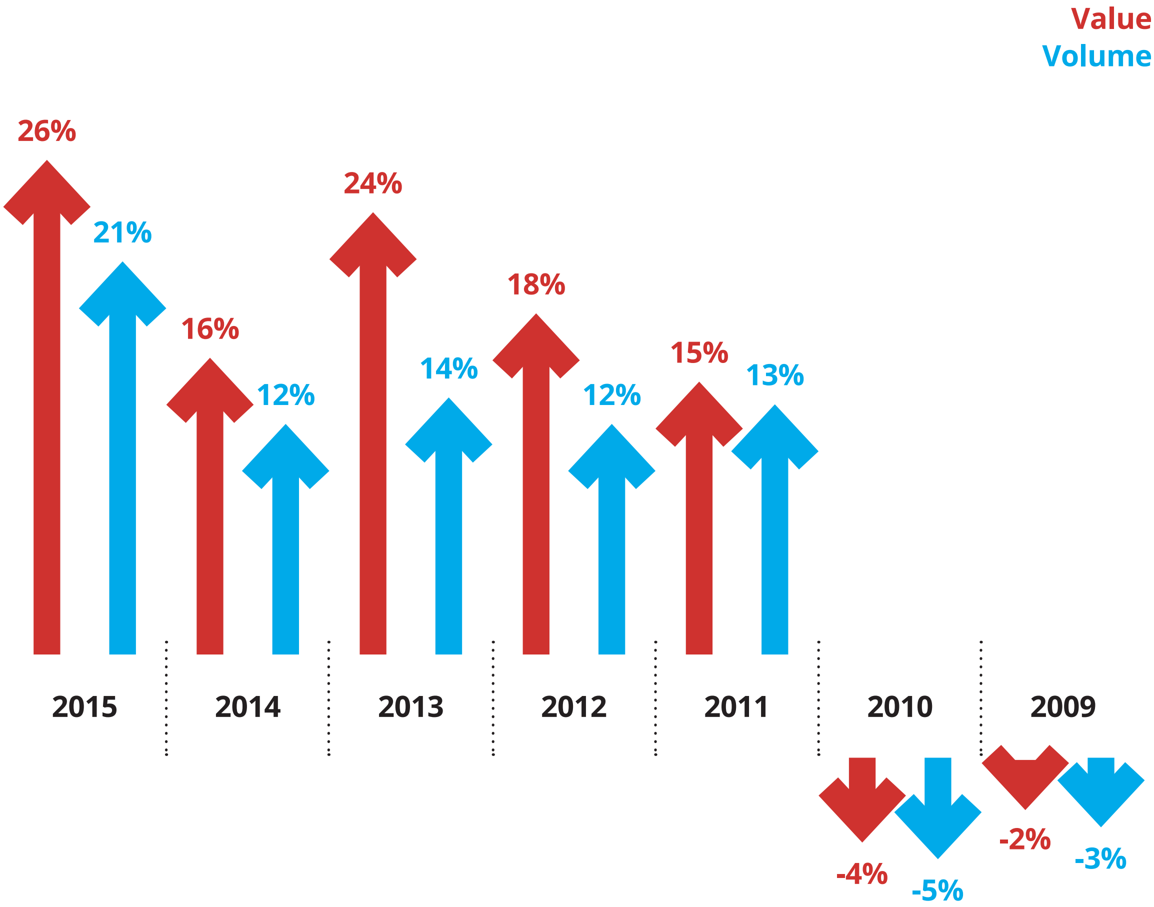
H2 2015 sees fastest half-year growth rates of the post-2008 era

At £898m, the value of housing wealth released by homeowners over the age of 55 in the second half of 2015 was the largest of any half year on record, pushing the 2015 annual total to a new high of £1.61bn. Second half activity exceeded the previous half-year record of £741m from H2 2014 by 21%, and is equivalent to £1.8bn of lending if sustained over a full 12 month period.

The five years from 2011 to 2015 have each seen a surge in equity release activity during H2, leading to double-digit growth compared with H1 in terms of value and volume.

The second half of 2015 saw a 26% rise in value compared with the first half: the biggest half-year growth rate on record. This trend was mirrored in the volume of plans agreed, which rose 21% between H1 and H2 2015: significantly higher than any other year in the post-2008 era.

Growth rate of equity release market activity – H1 to H2



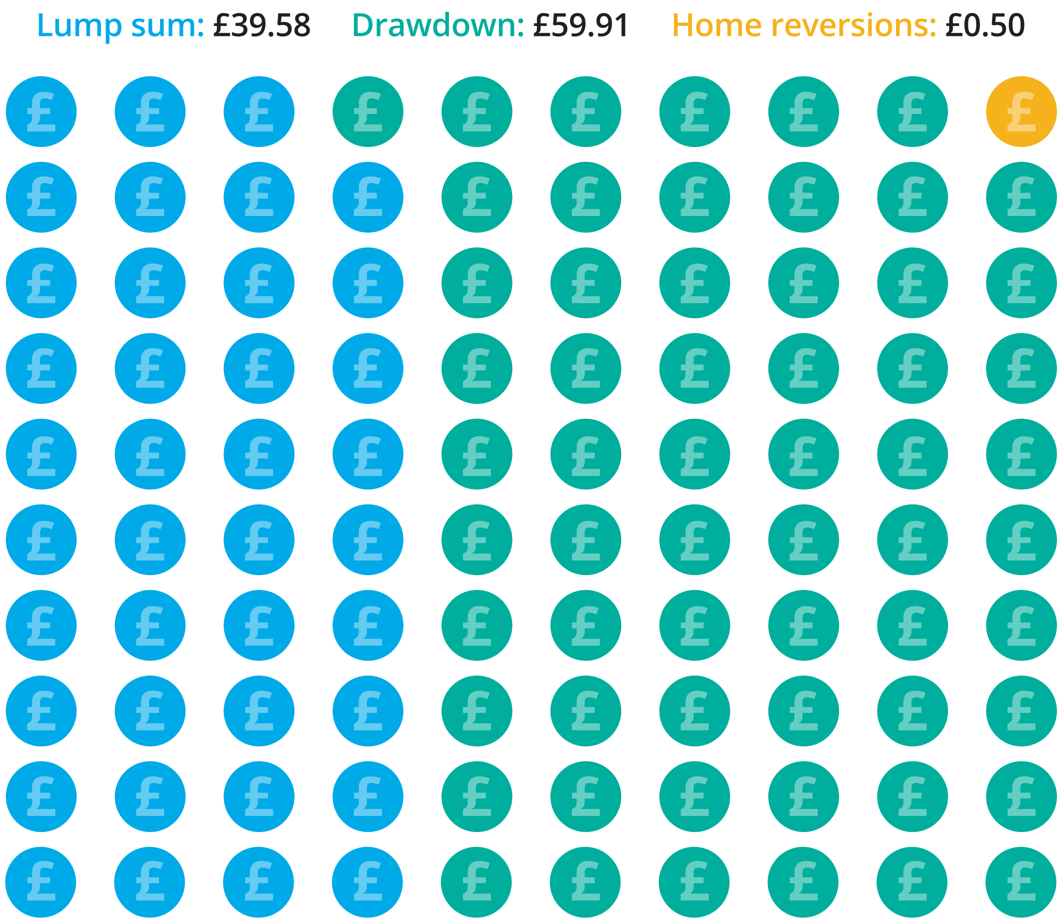
How was housing wealth withdrawn?

Drawdown mortgages accounted for £59.91 in every £100 of housing wealth unlocked during H2 2015, up from £59.65 in H1 but slightly below the £60.13 seen a year earlier in H2 2014.

In contrast, £39.58 in every £100 unlocked in H2 was via lump sum mortgages, down from £40.18 in H1 2015 to the lowest share in two years since H2 2013 (£37.38).

While home reversions accounted for a comparatively small proportion (£0.50 in every £100) of housing wealth released during the second half of 2015, this still represents a relative revival in activity. It was the highest share since H1 2012 (£1.04), while the total value of home reversion plans (£4.5m in H2 2015) was the largest in four years since H2 2011 (£9.3m).

How each £100 of housing wealth was unlocked in H2 2015



Recent innovation in product development has seen features emerge on some loans which allow customers to pay interest, before opting to switch to roll-up arrangements. Another area of innovation has been to allow customers to make part-repayments of capital up to a certain value without any possibility of incurring an early repayment charge, and we estimate over half of plans sold in H2 2015 came with this facility.

Customer profiles

Housing wealth meeting needs at opposite ends of retirement

Equity release involves a regulated advice process and, for the second year running, all new plans agreed in 2015 were via intermediaries (independent financial advisers or mortgage brokers). The average age of customers across the whole market dipped slightly during H2 2015, from 70.1 in H1 to 69.8. This was a result of both lump sum and drawdown customers' average age decreasing during this period.

It continues the trend seen over the last two years, meaning the average customer in H2 2015 was a year younger than in H1 2014, rising to 18 months among those choosing lump sum products.

Average age of new customers

	All plans	Lump sum	Drawdown
2015 H2	69.8	67.2	70.9
2015 H1	70.1	67.7	71.5
2014 H2	70.3	67.6	71.6
2014 H1	70.8	68.8	71.6

For the second successive year, the second half of 2015 saw a rise in the percentage of new plans agreed by customers aged 55-64, compared with the first half. This reached 21.2% in H2 2015, up from 20.0% a year earlier although it remains below the levels of 22-23% seen in 2011 and 2012.

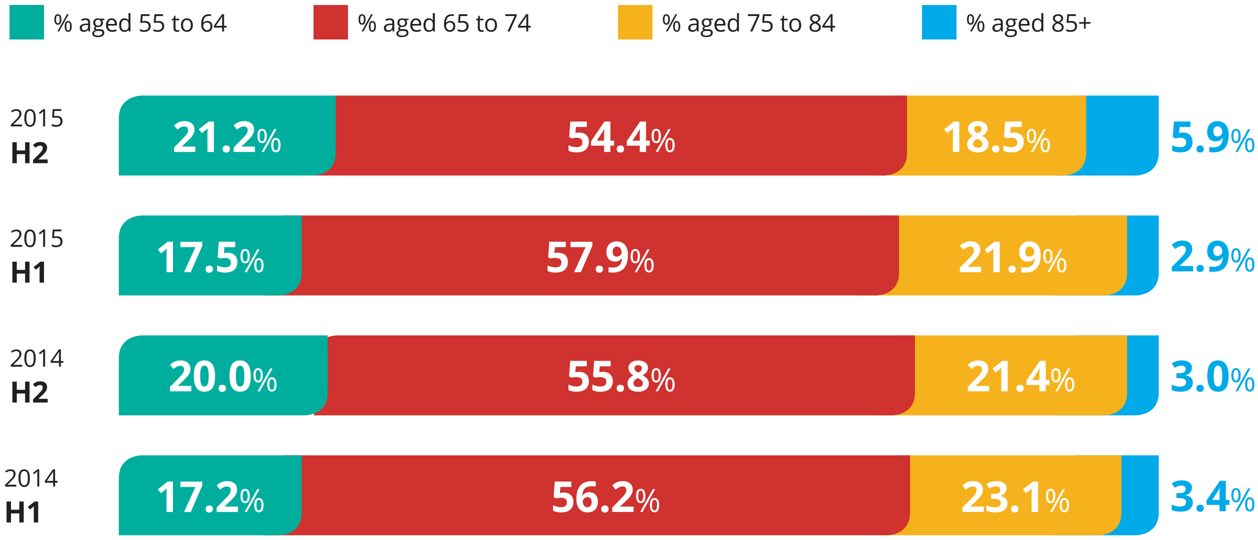
The appeal of equity release between the ages of 55-64 looks to be continuing despite the arrival of the 'pension freedoms' in April 2015, allowing extra 'freedom and choice' for savers accessing their Defined Contribution (DC) pension pots. It suggests the option to unlock housing wealth remains important to people's finances as they approach what was once the 'traditional' retirement age of 65.

This is also true for those customers reaching the end of interest-only mortgage terms who need a solution to pay off their loan while remaining in their home, as our case study on page 7 shows.

While 65-74 remains the most common age for taking out an equity release plan, H2 2015 was also notable for the rise in plans taken out by older customers. Those aged 85+ accounted for 5.9% of new plans agreed, almost twice the 3.0% share seen a year earlier.

It shows housing wealth is serving a purpose much later in people's retirement, as homeowners use their equity to meet one-off costs, fund homecare needs or simply boost the income they receive from other sources such as personal and state pensions.

Age breakdown of new customers



H2 2015 saw the percentage of joint equity release plans drop to 55.1%, down from 58.7% in H1 and 59.5% a year earlier. Loans to single males accounted for 15.4% of new plans in H2 2015, up from 13.1% in H2 2014 while the share of loans to single females also grew from 27.3% to 29.6% over the same period.

Case study: improving lives

Paying off an interest-only mortgage: **Mr. Reay, Key Retirement and More2Life**

Following his divorce in 2006, Mr. Reay was forced to re-apply for a mortgage on his home in Morpeth, Northumberland the house he's lived in for 10 years. The bank wrote to him telling him the mortgage was due to come to an end in February 2016, and they offered the option to make extra payments in an attempt to clear some of the debt. It was made very clear to Mr. Reay that because of his age – now 71 – he wouldn't be able to extend the length of the term.

He needed £85,000 to clear the outstanding mortgage on a property valued at £220,000, or he would have to move. He took out an equity release loan via Key Retirement in order to clear his mortgage.

He commented:
"Equity release has provided me with the solution to clear my remaining mortgage after my bank told me my mortgage term was coming to an end. It took a huge weight off my shoulders and I feel that I'm now able to really enjoy my retirement. Key were fantastic in helping me resolve the issue of debt that was hanging over me, and I'd recommend anyone in a similar situation to consider equity release."

Age and product preferences

Most 55-64s opt for lump sums while four in five choose drawdown beyond 75

Just over two in three (66.6%) new plans agreed in H2 2015 were drawdown mortgages, while 32.8% were lump sum mortgages and home reversion plans accounted for below 0.5%.

At least 60% of new plans in each half year period since H1 2010 have been drawdown arrangements, but – with the average drawdown customer being older than the average lump sum customer – further analysis shows how product preferences vary depending on customers' age.

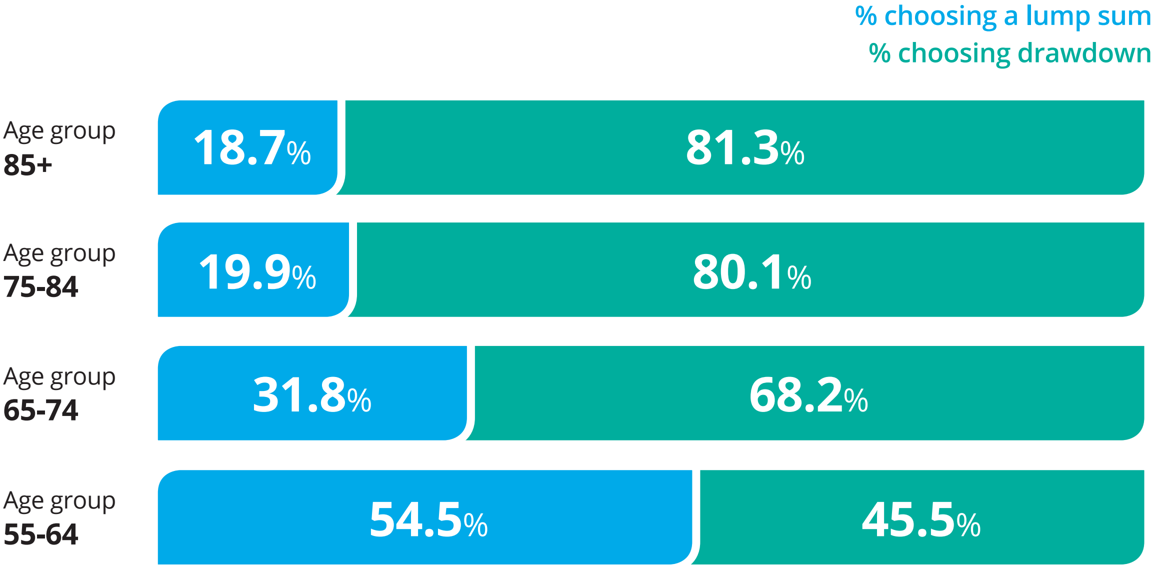
During H2 2015, those aged 55-64 bucked the overall trend with the majority (54.5%) opting for lump sum products, giving them a bulk release of housing wealth which is often used to meet one-off costs.

As well as paying off an existing mortgage or unsecured debt, common uses include funding home improvements, paying for travel or gifting money to family members, for example to help pay the deposit for a home or meet other living costs.

Between 65 and 74 – the most common age bracket for agreeing an equity release plan – the balance of product choices is closely matched to the overall market average, with 68.2% of plans being drawdown and 31.8% being lump sum.

From 75 onwards, four out of every five plans agreed are drawdown plans as customers take an initial sum in later life while reserving an amount to draw down in stages as the need arises.

Age groups broken down by product choices

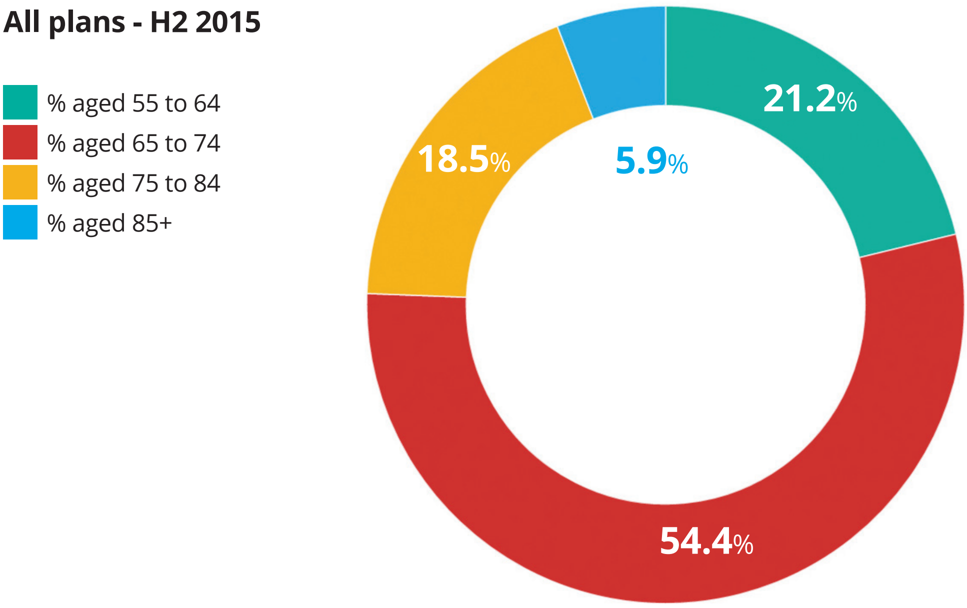


Customers aged 55-74 account for a higher share of enhanced plans

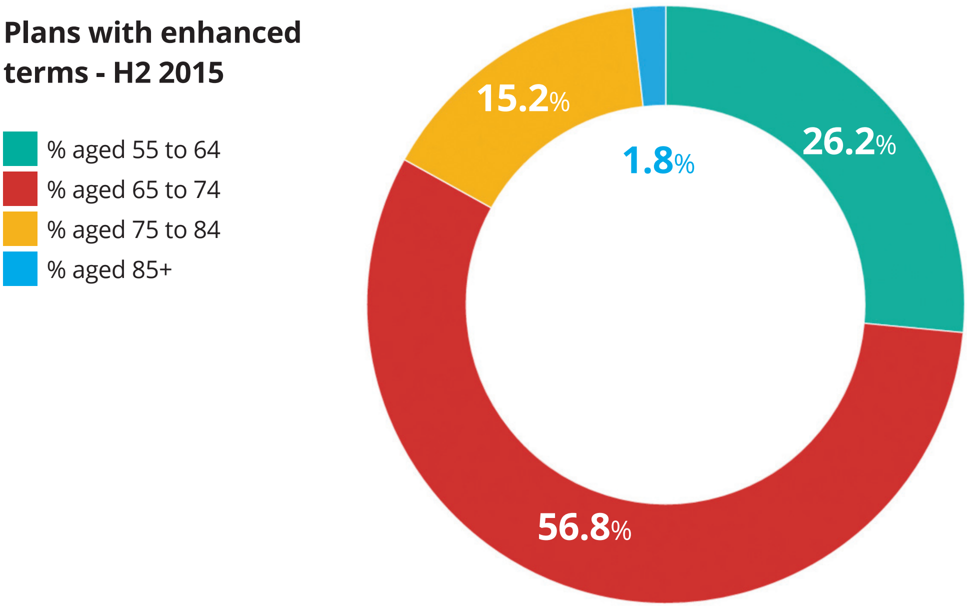
Data for H2 2015 also suggests one in six (16.8%) new equity release plans agreed featured 'enhanced' terms, which can allow customers to release more equity from their homes depending on lifestyle and medical factors.

While customers aged 65-74 make up the largest share of all new plans agreed (54.4%), they account for an even greater share of enhanced plans (56.8%). Customers aged 55-64 also account for a greater share of enhanced plans (26.2%) than of all plans (21.2%).

All plans - H2 2015



Plans with enhanced terms - H2 2015



Housing wealth

Average lump sum LTV dips despite customers accessing larger sums of housing wealth

As the average house price of customers using equity release continues to rise – reaching £294,496 in H2 2015, up by 3.8% from £283,806 in H1 – the average amount of housing wealth withdrawn has also grown.

Year-on-year, 4.0% house price growth from H2 2014 (£283,196) to H2 2015 is slightly below the 4.5%-9.5% range reported by the main national indices – Nationwide, Halifax, Land Registry and the Office for National Statistics – to December 2015.

Lump sum trends

The average value of a new lump sum mortgages increased by £3,830 or 4.9% between H1 and H2 2015, from £77,494 to £81,324. When compared to the same time the previous year (H2 2014 vs. H2 2015), there was increased borrowing of £7,115 or 9.6% as customers take advantage of rising prices to draw on a larger amount of housing wealth.

However, the average lump sum customer in H2 2015 had £21,921 or 9.0% more housing wealth to begin with, compared with H1 2015. As a result, their average loan to value (LTV) dropped from 32.0% to 30.8%. This is little changed from the 30.5% seen in H2 2014 and shows that, despite having a more valuable home, the average customer continues to draw on less than a third of their total housing wealth.

Lump sum customers

	H1 2014	H2 2014	H1 2015	H2 2015
Average house price	£247,745	£243,535	£242,476	£264,397
Average withdrawal	£66,469	£74,209	£77,494	£81,324
Average LTV	26.8%	30.5%	32.0%	30.8%

Drawdown trends

The average initial drawdown advance also increased between H1 and H2 2015, with customers unlocking £49,607 on average between July and December: up by £2,649 or 5.6% from £46,958 during the previous six months. The amount reserved for future use also rose over this period: from £32,348 to £36,668, almost £10,000 more than was the case in H2 2014.

The total housing wealth of drawdown customers remains significantly more than lump sum customers (£301,971 vs. £264,397), despite drawdown customers having marginally less valuable homes on average in H2 2015 than in H1 (£304,340).

As a result of their extra borrowing, their total LTV increased from 26.1% in H1 to 28.6% in H2. However, this remains lower than the average lump sum LTV and the initial drawdown amount was just 16.4% of the average customer's total housing wealth.

Drawdown customers

	H1 2014	H2 2014	H1 2015	H2 2015
Average house price	£283,836	£300,836	£304,340	£301,971
Average initial advance	£44,464	£47,831	£46,956	£49,607
Average extra reserves	£31,372	£26,820	£32,348	£36,668
Average LTV	26.7% (15.7% + 11.1%)	24.9% (15.9% + 8.9%)	26.1% (15.4% + 10.6%)	28.6% (16.4% + 12.1%)

Home reversions

Among new home reversion plans in H2 2015, the average customer sold 50% of their home, which had a total value of £183,000. Customers ranged from 64 to 88 in terms of age, with 50% aged 65-74, 25% aged 75-84 and 25% aged 85+.

Regional trends

Equity release gives the average customer a financial boost worth more than 100 weeks of full-time take-home pay

As property values continue to rise across much of the UK, it has been observed how many homes can 'earn' more in terms of annual house price growth than the average wage of the people who live in them. For homeowners in later life, who may no longer be working themselves, the potential benefits of this trend are considerable in terms of giving them options to improve their retirement finances.

The table below compares the average amounts of equity released across the UK regions in H2 2015, either through lump sum lifetime mortgages or the initial instalment of drawdown plans, to the average weekly take-home salary of full-time employees in that region.

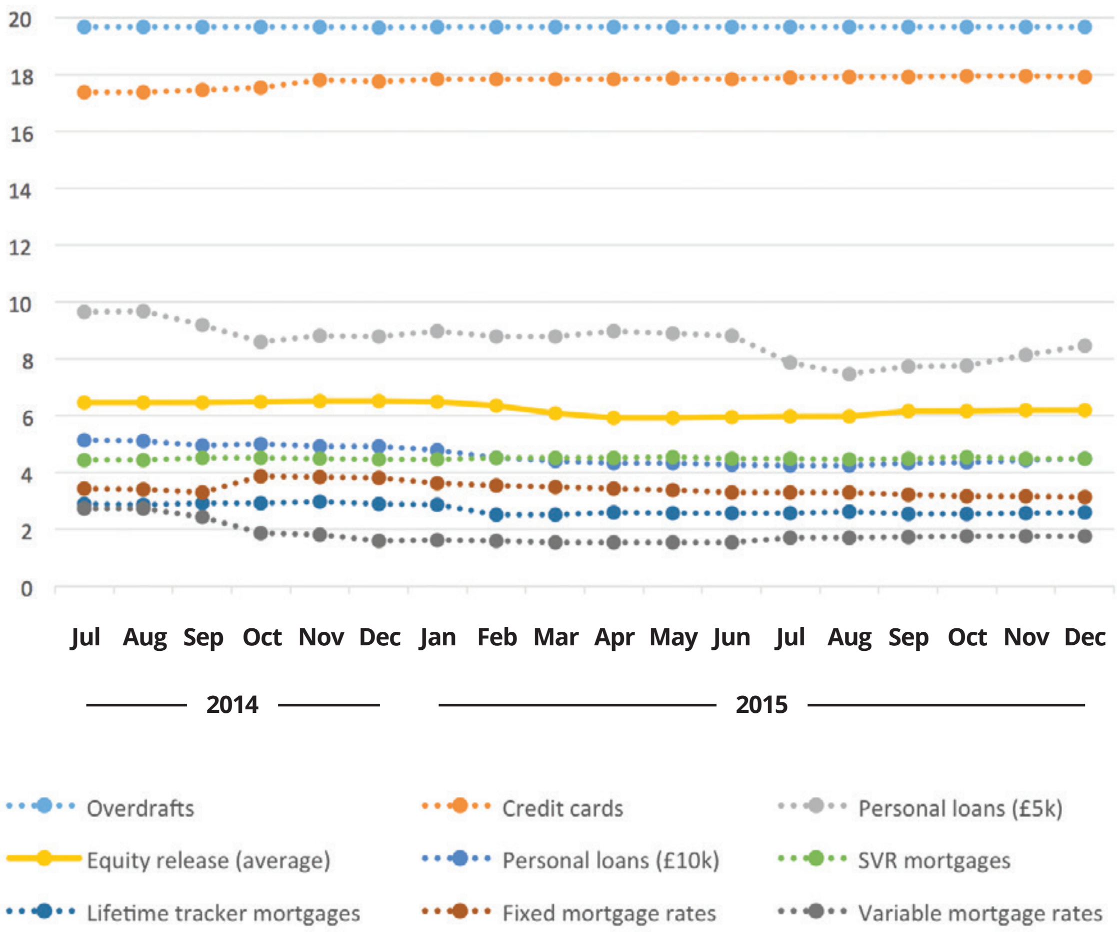
It shows that, by choosing to unlock their housing wealth in later life, equity release customers across the UK are giving themselves a financial boost that is equivalent to 109 weeks' full-time take-home pay for drawdown customers – more than two years' pay – or 179 weeks for lump sum customers: more than the average full-time worker brings home in three years.

	Average drawdown first withdrawal	Average lump sum	Average take-home weekly full-time pay	Equivalent weeks' pay (drawdown)	Equivalent weeks' pay (lump sum)
London	£72,858	£209,739	£561.71	130	373
South East	£44,435	£102,184	£505.38	88	202
South West	£34,349	£78,531	£436.03	79	180
UK	**£49,607**	**£81,324**	**£453.36**	**109**	**179**
East of England	£23,902	£74,476	£452.38	53	165
West Midlands	£25,214	£61,681	£416.00	61	148
East Midlands	£24,137	£60,198	£417.92	58	144
North West	£25,266	£57,873	£407.24	62	142
Yorkshire	£23,646	£52,799	£406.95	58	130
North East	£25,548	£51,233	£398.95	64	128
Wales	£19,420	£51,251	£408.47	48	125
Northern Ireland	£13,172	£42,739	£402.61	33	106
Scotland	£19,616	£39,834	£438.82	45	91

Personal borrowing rates tracker

Average rates for equity release products edged up in the final months of 2015, having dipped below 6% over the summer months. This will have been influenced by some providers reaching their year-end targets; however, best-buy rates remained below 5.5%, and the December 2015 average (6.21%) was significantly lower than that of December 2014 (6.52%).

Since the turn of the year, the equity release market has seen its first sub-5% interest rate launched as competition ensuring product pricing remains competitive.



Source: *Moneyfacts/Bank of England. Rate changes measured in basis points (bps). Average equity release rates exclude products which do not offer the guaranteed right to tenure and no negative equity guarantee.*

Why do rates differ between lifetime and residential mortgages?

Lifetime mortgages differ from 'standard' residential mortgages in a number of ways, including: offering a fixed rate of interest for an indefinite term; guaranteeing the right to tenure; and protecting the customer against negative equity, with the provider absorbing the risk. Because of this, lifetime mortgage providers use different funding sources and have to set their rates to account for factors such as longevity and potential changes in the housing market.

Redemptions

Equity release plans are designed as long term agreements with indefinite terms that typically last until the point where the customer dies or moves into permanent care, and do not require capital or interest to be repaid until either point.

In the event that customers wish to move home – for example, to be nearer family – plans are portable providing the new property is acceptable to their provider as security for the loan, with no early repayment charge involved unless the customer chooses to pay back more than is required if the new property is of a lower value.

As long term agreements, plans are priced to provide long-term guarantees and protections beyond those offered by residential mortgages, including a fixed rate for life, insurance against negative equity and the right for the customer to remain in their property for life.

An analysis of existing plans held with current members of The Council which reached either 'natural' point of redemption during H2 2015 shows that, in the majority (82%) of cases, this occurred when the customer passed away. In the remaining 18% of cases, plans were paid off when the homeowner moved into permanent care.

About the Equity Release Council

www.equityreleasecouncil.com

The Equity Release Council is the industry body for the equity release sector, which represents over 400 members including providers, qualified financial advisers, solicitors, surveyors and other industry professionals.

It works to ensure a safe equity release market for consumers, by operating rigorous Standards for the provision of advice and products which guarantee security of tenure and financial protections. 2016 marks the 25th anniversary since the first industry Standards were created for equity release in 1991. Since then, over 350,000 consumers have taken out an equity release plan from Council members, drawing on almost £17bn of housing wealth.

The Council also works with consumers, industry and policy makers to improve awareness and understanding of equity release and the potential for housing wealth to help solve many of the financial challenges facing people over the age of 55 across the UK.

Key facts and figures

- The first equity release Standards were **introduced in December 1991**, when the predecessor body Safe Home Income Plans (SHIP) launched. This evolved to become the Equity Release Council in 2012.
- The Council today represents **over 400 members** including providers, qualified financial advisers, solicitors, surveyors and other industry professionals
- All members are committed to support the equity release Standards, Principles, Rules and Guidance set out by The Council, in addition to their regulatory responsibilities
- Since 1991, **over 350,000 people** have taken out an equity release plan from a Council member, drawing on almost **£17bn of housing wealth**.
- **Over 96%** of equity release lending since 1991 has been via lifetime mortgages, with the remaining 4% via home reversion plans. In 2015, drawdown lifetime mortgages accounted for two in three (66%) products sold, with lump sum lifetime mortgages making up 34% and home reversion plans fewer than 1%.
- The latest quarterly run-rate among Council members shows over **6,400 new plans agreed**, equivalent to more than 25,000 a year. The record quarter for lending to date (Q3 2015) saw customers unlocking over £5m of housing equity a day
- Annual lending has **grown from £29m in 1992 to £1.61bn in 2015**. The market's post-recession recovery has seen it more than double in size from £788m in 2011 to £1.61bn in 2015: 33% more than the pre-financial crisis peak of £1.21bn in 2007.
- Since Q4 2013, all sales of equity release products have been via **intermediaries (IFAs or mortgage brokers)**.

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 January 2016 using data from all new equity release plans taken out in the second half of 2015, alongside historic data from over 50,000 new plans taken out since 2011. 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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